The Governance

A 10 Days Intro Course for the Beginners

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Contents

Foreword

While the contemporary system of global political relations is not integrated, the relation between the various regimes of global governance is not insignificant, and the system does have a common dominant organizational form. Global governance in a very general understanding is collective management of common transnational or global problems. It is a movement of efforts to bring more orderly and reliable responses to social and political issues that go beyond the capacity of states.

Business Management is that branch of education which provides knowledge and training pertaining to planning and skills. Management is the act of allocating resources to accomplish desired goals and objectives efficiently and effectively; it comprises planning, organizing, staffing, leading or directing, and controlling an organization (a group of one or more people or entities) or effort for the purpose of accomplishing a goal. It includes all aspects of overseeing and supervising business operations.

This is a training regimen course focused on the fundamentals of business management and governance. These are typically non-credit bearing programs that require less than 100 hours of total learning. The book will teach you to think differently about the key management and financial aspects of running an organization as well as what consumers want and expect. For example, as doctor, it will give you the confidence to take up management and leadership roles and compliment interests in health policy and commissioning.

Shri Bhagavatananda Guru

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Day 01

International Law

— Introduction —

Welcome to **International Law** ! A vast network of International law and dozens of International organizations make globalization possible. Treaties and other types of agreements among countries set rules for International trade and finance, such as the GATT; foster cooperation on protecting the environment, such as the Kyoto Protocol; and establish basic human rights, such as the International Covenant on Civil and Political Rights.

Meanwhile, among many International organizations, the United Nations facilitates International diplomacy; the World Health Organization coordinates International public health and protection, and the International Labor Organization monitors and fosters workers' rights around the world. The scope and authority of International law have thus expanded dramatically during the era of globalization. Historically, International law addressed only relations between states in certain limited areas (such as war and diplomacy) and was dependent on the sovereignty and territorial boundaries of distinct countries, generally referred to as *states.*

But globalization has changed International law in numerous ways. For example, as globalization has accelerated, International law has become a vehicle for states to cooperate regarding new areas of International relations (such as the environment and human rights), many of them requiring states to rethink the previous notions of the inviolable sovereign state. The continued growth of International law is even more remarkable in this sense, since states, having undoubtedly weighed the costs and benefits of the loss of this valuable sovereignty, have still chosen to continue the growth of International law.

Because of the need for enhanced International (or as some call it, *transnational*) cooperation, globalization has therefore given new meanings to classic issues. Questions of the authority of a country within its own borders – that is, its state sovereignty – the role of the individual in the International community of nation-states, and the authority of International organizations, have all evolved in light of the forces of globalization. This course describes the sources of International law and the subjects it covers; the International organizations that implement International law; and some of the controversial aspects related to International law and organizations as well as their relationships to state sovereignty.

What is International Law ?

What is the basic definition of International law? Is International law really law, the way the laws of a national state, enforced by courts and police, are? Where do we find the rules of International law? Are they written down somewhere? Finally, how is International law enforced, if there is no world government?

Is International Law really *Law* ?

Basically defined, International law is simply the set of rules that countries follow in dealing with each other. There are three distinct legal processes that can be identified in International Law that include

- Public International Law (The relationship between sovereign states and International entities such as International Criminal Court),
- Private International Law (Addressing questions of jurisdiction in conflict), and
- Supranational Law (The set of collective laws that sovereign states voluntarily yield to).

There are several ways to think about law. In the domestic legal system, we think of law as the rules that the government issues to control the lives of its citizens. Those rules are generally created by the legislature, interpreted by the judiciary, and enforced by the executive branch, using the police, if necessary, to force citizens to obey. What is law for the International community if there is no one legislature, judiciary, executive branch, or police force?

Imagine a school playground with several children at play. The “law” is the set of playground rules that the teacher tells her students. For example, she might tell them, “Don’t bully your classmate.” Two different reasons can explain why the children will follow this rule. On the one hand, they may follow the rule only because they are afraid of being punished by the teacher. On the other hand, the students may believe that it is a bad thing to hit their classmates. Since it is a bad thing to do, they will follow the teacher’s rule.

In the first case, they will obey the rule only if the teacher is there and ready to punish them. In the second case, students will obey the rule even if the teacher is not there. In fact, even if the teacher is not present, the children may obey the rule because they have become used to not hitting each other and have therefore enjoyed playing with each other.

Just as certain common understandings between children may make it easier for them to play, collective agreement on certain rules can often serve the interests of all the members of a community. Just as on a playground without a teacher, in the International setting there is no central authority. For the most part, however, states will follow the rules they have agreed to follow because it makes these interactions easier for all parties involved.

Thus, the fact that there is no overall authority to force compliance with the rules does not necessarily mean that there is no law. Law still exists in this setting, though it may be practiced and enforced in different ways. International law can therefore be called “real law,” but with different characteristics from the law practiced in domestic settings, where there is a legislature, judiciary, executive, and police force.

What are the sources?

Since there is no world government, there is no world congress or parliament to make International law the way domestic legislatures create laws for one country. As such, there can be significant difficulty in establishing exactly what is International law. Various sources, however – principally treaties between states – are considered authoritative statements of International law. Treaties are the strongest and most binding type because they represent consensual agreements between the countries who sign them. At the same time, as stated in the statute of the International Court of Justice (ICJ), rules of International law can be found in customary state practice, general principles of law common to many countries, domestic judicial decisions, and the legal scholarship.

International Treaties:

Treaties are similar to contracts between countries; promises between states are exchanged, finalized in writing, and signed. States may debate the interpretation or implementation of a treaty, but the written provisions of a treaty are binding. Treaties can address any number of fields, such as trade relations, such as the North American Free Trade Agreement and the European Union, or control of nuclear weapons, such as the Nuclear Non-Proliferation Treaty. They can be either bilateral (between two countries) or multilateral (between many countries). They can have their own rules for enforcement, such as arbitration, or refer enforcement concerns to another agency, such as the International Court of Justice. The rules concerning how to decide disputes relating to treaties are even found in a treaty themselves – the Vienna Convention on the Law of Treaties (United Nations, 1969).

Custom

Customary International law (CIL) is more difficult to ascertain than the provisions of a written treaty. CIL is created by the actual actions of states (called "state practice") when they demonstrate that those states believe that acting otherwise would be illegal. Even if the rule of CIL is not written down, it still binds states, requiring them to follow it.

For example, for thousands of years, countries have given protection to ambassadors. As far back as ancient Greece and Rome, ambassadors from another country were not harmed while on their diplomatic missions, even if they represented a country at war with the country they were located in. Throughout history, many countries have publicly stated that they believe that ambassadors should be given this protection. Therefore, today, if a country harmed an ambassador it would be violating customary International law.

Similarly, throughout modern history, states have acknowledged through their actions and their statements that intentionally killing civilians during wartime is illegal in International law. Determining CIL is difficult, however, because, unlike a treaty, it is not written down. Some rules are so widely practiced and acknowledged by many states to be law, that there is little doubt that CIL exists regarding them; but other rules are not as universally recognized and disputes exists about whether they are truly CIL or not.

The International law is based on the theory of "natural law," which argues that laws are a reflection of the instinctual belief that some acts are right while other acts are wrong. "The general principles of law recognized by civilized nations" are certain legal beliefs and practices that are common to all developed legal systems (United Nations, 1945).

For instance, most legal systems value "good faith," that is, the concept that everyone intends to comply with agreements they make. Courts in many countries will examine whether the parties to a case acted in good faith, and take this issue into consideration when deciding a matter. The very fact that many different countries take good faith into consideration in their domestic judicial systems indicates that "good faith" may be considered a standard of International law. General principles are most useful as sources of law when no treaty or CIL has conclusively addressed an issue.

Judicial Decisions and Legal Scholarship:

The last two sources of International law are considered "subsidiary means for the determination of rules of law." While these sources are not by themselves International law, when coupled with evidence of International custom or general principles of law, they may help to prove the existence of a particular rule of International law.

Especially influential are judicial decisions, both of the International Court of Justice (ICJ) and of national courts. The ICJ, as the principal legal body of the United Nations, is considered an authoritative expounder of law, and when the national courts of many countries begin accepting a certain principle as legal justification, this may signal a developing acceptance of that principle on a wide basis such that it may be considered part of International law.

Legal scholarship, on the other hand, is not really authoritative in itself, but may describe rules of law that are widely followed around the world. Thus, articles and books by law professors can be consulted to find out what International law is.

How is International Law enforced?

A treaty may have incorporated into its own text enforcement provisions, such as arbitration of disputes or referral to the ICJ. However, some treaties may not expressly include such enforcement mechanisms. Especially in situations where the International law in question is not explicitly written out in a treaty, one can question how this unwritten law can be enforced. In an International system where there is no overarching authoritative enforcer, punishment for non-compliance functions differently. States are more likely to fear tactics used by other states, such as reciprocity, collective action, and shaming.

Reciprocity:

Reciprocity is a type of enforcement by which states are assured that if they offend another state, the other state will respond by returning the same behavior. Guarantees of reciprocal reactions encourage states to think twice about which of their actions they would like imposed upon them. For example, during a war, one state will refrain from killing the prisoners of another state because it does not want the other state to kill its own prisoners. In a trade dispute, one state will be reluctant to impose high tariffs on another state’s goods because the other state could do the same in return.

Collective Action:

Through collective action, several states act together against one state to produce what is usually a punitive result. For example, Iraq’s 1990 invasion of Kuwait was opposed by most states, and they organized through the United Nations to condemn it and to initiate joint military action to remove Iraq. Similarly, the United Nations imposed joint economic sanctions, such as restrictions on trade, on South Africa in the 1980s to force that country to end the practice of racial segregation known as apartheid.

Shaming (also called "name and shame" approach):

Most states dislike negative publicity and will actively try to avoid it, so the threat of shaming a state with public statements regarding their offending behavior is often an effective enforcement mechanism. This method is particularly effective in the field of human rights where states, not wanting to intervene directly into the domestic affairs of another state, may use media attention to highlight violations of International law.

In turn, negative public attention may serve as a catalyst to having an International organization address the issue; it may align International grassroots movements on an issue; or it may give a state the political will needed from its populace to authorize further action. A recent example of this strategic tactic was seen in May 2010, when the U.N. named the groups most persistently associated with using child soldiers in Asia, Africa, and Latin America (United Nations, 2010).

Sovereignty

State sovereignty is the concept that states are in complete and exclusive control of all the people and property within their territory. State sovereignty also includes the idea that all states are equal as states. In other words, despite their different land masses, population sizes, or financial capabilities, all states, ranging from tiny islands of Micronesia to vast expanse of Russia, have an equal right to function as a state and make decisions about what occurs within their own borders. Since all states are equal in this sense, one state does not have the right to interfere with the internal affairs of another state.

Practically, sovereignty means that one state cannot demand that another state take any particular internal action. For example, if Canada did not approve of a Brazilian plan to turn a large section of Brazil's rainforest into an amusement park, the Canadian reaction is limited by Brazil's sovereignty.

Canada may meet with the Brazilian government to try to convince them to halt the project. Canada may bring the issue before the UN to survey the world's opinion of the project. Canada may even make politically embarrassing public complaints in the world media. However, Canada cannot simply tell Brazil to stop the rainforest project and expect Brazil to obey.

Under the concept of state sovereignty, no state has the authority to tell another state how to control its internal affairs. Sovereignty both grants and limits power: it gives states complete control over their own territory while restricting the influence that states have on one another. In this example, sovereignty gives the power to Brazil to ultimately decide what to do with its rainforest resources and limits the power of Canada to impact this decision.

Globalization is changing this view of sovereignty, however. In the case of the Brazilian rainforest, Brazil may consider a rainforest located wholly within its property an issue solely of internal concern. Canada may claim that the world community has a valid claim on all limited rainforest resources, regardless of where the rainforest is located, especially in consideration of issues like endangered species and air pollution.

Similarly, states no longer view the treatment of citizens of one state as only the exclusive concern of that state. International human rights law is based on the idea that the entire global community is responsible for the rights of every individual.

International treaties, therefore, bind states to give their own citizens rights that are agreed on at a global level. In some cases, other countries can even monitor and enforce human rights treaties against a state for the treatment of the offending state's own citizens.

Fields of International Law

International law has developed certain areas of practice, guided by their own principles, documents, and institutions. Even though these areas of expertise can stand alone, boundaries drawn in International law are arbitrary because the underlying principles of each field both inform and compete with one another.

Law of Armed Conflict

The law of armed conflict (also called the "law of war") can be divided into two categories. The first concerns the legitimate reasons for starting a war, known by its Latin terminology, jus ad bellum ("Right to Wage War"). The laws during war, jus in bello ("Justice in War"), are also called International humanitarian law.

"Jus ad bellum" principle: *Article 2(4) of the UN Charter states, "All Members shall refrain in their International relations from the threat or use of force against the territorial integrity or political independence of any state, or in any other manner inconsistent with the Purposes of the United Nations" (United Nations, 1945). Some regard this as the prohibition of the use of force outside of UN-approved actions. On the other hand, others consider this clause only non-binding rhetoric, especially considering the history of armed conflict since the UN's birth in 1945.*

The UN Charter and CIL do recognize that a state is entitled to use force without International approval when it is acting in self-defense. However, the events that trigger this right to self-defense are subject to debate. Most International lawyers agree that self-defense actions must be immediately necessary and proportional to the attack the state is trying to repel. The clarity of what qualifies as a "just war" has been put in the spotlight

as recently as the Invasion of Iraq in 2003, with scholars and politicians around the globe questioning the legitimacy of such a war. In this era of terrorism and weapons of mass destruction, some contend that legal self-defense also extends to pre-emptive attacks to prevent the development of a military threat.

"Jus in bello" principle: *Once armed conflict has begun, International humanitarian laws begin to apply. Some of the most important principles of "jus in bello" are that there must be a valid military purpose to every attack ("military necessity"), that attackers must try to avoid killing non-combatants (the principle of "distinction" between military and non-military targets), and that if non-combatants are killed, their deaths must be in proportion to the military necessity of the attack ("proportionality").*

For example, attacking a weapons factory is legitimate, but if the factory is located near civilian homes, then the attacker must try to avoid attacking those home; if attacking them will inevitably kill many civilians, the attack should not take place. Applying these principles in practice, however, is very difficult. Who determines whether an attack was necessary, distinguished between civilians and combatants, and was proportional? The main rules governing jus in bello are written down in the Geneva Conventions of 1949 (ICRC,1949).

Economic Law

International law governs a diverse mixture of economic and commercial matters, such as trade, monetary policy, development, intellectual property rights, and investment. This area of International law reaches broadly enough to encompass topics ranging from International transactions by private parties to agreements between states to regulate their trade activities. The General Agreement on Tariffs and Trade (GATT) that governs International trade, is the most important treaty in this area; it is administered by the World Trade Organization. Others include the treaty on Trade Related Aspects of Intellectual Property (TRIPS) and the General Agreements on Trade in Services (GATS).

Human Rights Law

International human rights law is different from most areas of International law because rather than governing relations between states, human rights law governs a state's relations with its own citizens. The modern human rights law movement has its roots in the post-WWII trials of Nazi leaders at Nuremburg. The world community recognized that the mass atrocities committed during WWII were too serious to be handled under domestic laws because the crimes committed were crimes against all of humanity.

Subsequently, the creators of the UN recognized the reaffirmation of fundamental human rights as one of its most important purposes, and in the first year of its existence, set out to ensure that goal. The first step took place when The Human Rights Commission – at

the time the lead UN body of human rights – produced the "International Bill of Human Rights," which is composed of the Universal Declaration of Human Rights and two binding treaties, the International Convention on Civil and Political Rights (ICCPR) and the International Covenant on Economic, Social and Cultural Rights (ICESCR).

On March 15, 2006, recognizing the need to update its human rights organizations, the General Assembly of the UN created the Human Rights Council. The Human Rights Council was created with the specific intention to address the heavy criticism that The Human Rights Commission had received for allowing far too many states with poor human rights records into the delegation (BBC, 2006).

This new body is responsible for further strengthening and promoting human rights around the world. One of the Council's many tools for protecting human rights is the innovative Universal Periodic Review, which allows for the examination of the status of human rights within all member states. Less than two weeks after the formation of the Human Rights Council, on March 27, 2006, the Commission on Human Rights met for its sixty-second and final session.

In January 2008 the Council drew criticism by calling on Israel to stop military operations in the Gaza Strip and to open its borders. This session was notable for being boycotted by both the U.S. and Israel who said that the Council's resolution had failed to address the rocket attacks against Israel (AFP, 2008). The commission was criticized in 2011 and 2012 for a perceived anti-Israel bias through its policies and resolutions (Lazaroff, 2012). Most recently, in July 2012, the council nominated Sudan and Ethiopia for seats, despite their record of human rights abuses (Human Rights Watch, 2012).

A sophisticated system of agreements and monitoring organizations exists to promote respect for the rights enshrined in these documents, both on International and regional levels, as with the European Convention on Human Rights and its Court of Human Rights, and the American Declaration and American Convention on Human Rights and their Inter-American Commission and Inter-American Court on Human Rights.

Environmental Law

Environmental law revolves around a core theory that the earth has limited resources that must be jointly enjoyed and cared for, regardless of their physical presence in the territory of one State as opposed to another. Environmental law attempts to bring states into agreement on issues such as desertification, sustainable development, biodiversity, endangered species, hazardous materials, climate change and trans-boundary pollution, all of which have been the subject of major International treaties, such as the United Nations Convention on Biological Diversity (CBD), the United Nations Convention to Combat Desertification, and the Convention on International Trade in Endangered Species.

Traditionally, International law dealt only with the relations between states, and states were the only creators and subjects of the law. Today that has changed, with new actors joining states as both creators and subjects.

States

States play the central and undisputed leading role in the creation of International law. However, the determination of whether an entity is actually a state can present a challenge. The generally agreed upon criteria for statehood are:

- Possesses a defined territory.
- Inhabited by permanent population.
- Controlled by an independent government.
- Engages in formal relations with other states.

The application of criteria is often subject to political considerations, however. Breakaway regions of countries often meet or are on the way to meeting these criteria, such as Kosovo, the Albanian-majority province of Serbia, or Chechnya, part of Russia, but are not recognized as states by the International community. Another issue in statehood that has been highly controversial for many years is the recognition of the State of Palestine. In such an instance this region is Internationally recognized by many states (de jure), however controls little to no portion of their claimed territory (de facto).

State representation, where more than one government tries to represent a single state, is also an important consideration. For example, even though the Taliban religious movement effectively controlled Afghanistan prior to the U.S. invasion in 2001, Afghanistan was represented in the UN by the government that had been deposed by the Taliban, but still claimed to be the country's legitimate rulers.

International Organizations

International organizations, otherwise known as intergovernmental organizations, or IGOs, are formed between two or more state governments. Some IGOs operate by making decisions on the basis of one vote for each member-state, some make decisions on a consensus or unanimity basis, while still others have weighted voting structures based on security interests or monetary donations.

In the General Assembly of UN, each state has one vote, while in the Security Council, five states are permanent members and have a veto over any action. The World Bank arranges its voting according to the Member State's shareholding status, which is roughly based on the size of the state's economy. This is often thought of as the "one dollar = one vote" approach to representation.

There are more than 2,000 International organizations that deal with a wide variety of topics requiring International cooperation, such as the International Civil Aviation Organization, the Universal Postal Union, the International Organization for Standardization, and the International Organization for Migration (United Nations, 2003).

Non-Governmental Organizations

Non-governmental organizations (NGOs), also called civil society organizations, are groups formed by individuals working across national borders to affect public policy. Recent progress in technology, coupled with globalization's emphasis on International cooperation, has allowed the effectiveness of these organizations to grow drastically. Individuals living in different countries can now network with one another, and the Internet has permitted NGOs to both obtain and publish information on an extensive level, previously only available to states.

NGOs have had significant impact on environmental affairs, such as Greenpeace's advocacy work on climate change, Amnesty International's advocacy of human rights, and the International Campaign to Ban Landmines, which won a Nobel Peace Prize for its work in shaping a global treaty to prohibit use of landmines.

However, as the influence of NGOs has grown, more questions are being raised regarding their accountability. Essentially, NGOs are special-interest groups on an International scale, which means that they are unelected and unaccountable to any public oversight, even though they claim to speak for the "public" as a whole. Failure to deliver adequate or promised results, coupled with little to no structural oversight has proven to be a large obstacle, which many NGO's still currently face scrutiny for.

Individuals

The position of individuals under International law has evolved significantly during the last century. Now, more than ever, under International law individuals are being given more rights and are being held responsible for their actions. Human rights law, for example, has tried to establish that every person around the world has certain basic rights that cannot be violated.

At the same time, individual accountability under International law has been established, first at the Nuremburg trials and recently at the International Criminal Tribunal for Yugoslavia and the International Criminal Tribunal for Rwanda and the dawn of the International Criminal Court, the first permanent International institution to hold individuals responsible for violations of the laws of armed conflict.

This issue of individual accountability in the International system can be seen with the actions carried out in June 2011, when the International Criminal Court (ICC) issued an arrest warrant for Libyan dictator Moammar Gadhafi for “Crimes against humanity” that were purportedly carried out while trying to quash a growing rebellion within the Libyan Borders. However, Gaddafi was eventually captured by National Transitional Council forces and subject to extra-judicial killing along with his son and close advisors in October 2011.

Multinational Corporations

Multinational corporations (MNCs), also sometimes called transnational corporations (TNCs), also are playing an increased role in the development of International law. MNCs are commercial entities whose interests are profit-driven.

Transnational corporations lobby states and International organizations in a manner similar to NGOs, with the hopes of having their interests protected under International law. Many of the same doubts related to NGO accountability and legitimacy can also be raised in the context of MNCs. For these reasons, the UN has sought both to regulate and to work with MNCs. At the Millennium Forum in May 2000, a proposal was put forth to regulate MNCs. A Draft Code of Conduct was reviewed and debated by various UN bodies for years, with no results. MNCs also have been sued in U.S. courts for violating International law in the way they affect the human rights of people in countries where they operate.

In 2005, in another attempt to regulate a code of conduct for transnational corporations, former UN Secretary General Kofi Annan appointed John Ruggie as the UN Special Representative for Business and Human Rights. In 2008, Ruggie created the concept of “Protect, Respect, and Remedy,” which was presented in concrete form in 2011 and became known as the “UN Guiding Principles on Business and Human Rights.” The Human Rights Council unanimously endorsed these principles and quickly established a group to focus on their implementation. The group first met in Geneva, Switzerland in December 2012, and found that much progress had been made in recent years.

The United Nations

The United Nations is a complex network. Just as any government may be divided into branches, such as the judiciary, legislative, and executive, the UN also has various bodies with different functions.

The overarching framework of the United Nations incorporates five principal organs, but a vast array of underlying specialized agencies, programs, funds, and related organizations maintain ties with the UN while operating under differing levels of

independence. The five principal organs of the UN operate as the political base of the United Nation:

- General Assembly: The General Assembly (GA), which is made up of the 193 member states, is the main deliberative body of the UN that meets annually in New York. In the plenary sessions of the GA, the member states address issues of International concern and debate resolutions. These resolutions hold no legally binding authority, but since each member-state gets one vote, GA resolutions represent the beliefs of the International community and are often considered "soft" law. The GA is composed of different committees (e.g. Disarmament and International Security Committee; Economic and Financial Committee; Legal Committee; etc).

- Security Council: The Security Council has the "primary responsibility for the maintenance of International peace and security." As such, the Security Council is the only UN body that can pass resolutions and it is also the only part of the UN that can authorize the use of force. The Security Council has 15 members, including five permanent members (China, France, Russia, the U.K., and the U.S.), and ten non-permanent members selected on a regional basis by the GA. The five permanent members can veto any substantive issue. The Security Council has previously established peacekeeping operations, International tribunals, and sanctions.

- Economic and Social Council: The Economic and Social Council (ECOSOC) is composed of 54 member-states elected by the GA according to fair regional representation standards. As its name suggests, ECOSOC is charged with making reports and recommendations in the fields of "economic, social, cultural, educational, health and other related matters." As such, ECOSOC oversees the work of 14 UN Specialized Agencies and 14 specialized commissions, which deal with issues such as drugs, crime prevention, and the status of women.

- Secretariat: The Secretariat, headed by the Secretary-General, offers administrative and substantive support to all of the programs of the UN, ranging from translation services to preparing studies on any topic the UN considers. Individuals working within the Secretariat are International civil servants, meaning that they pledge they will not follow the orders of their home state, but will instead work for the good of the International community.

- International Court of Justice: The International Court of Justice (ICJ), as the principal judicial organ of the UN, resolves disputes among States and gives advisory opinions to the UN. Judges of fifteen different nationalities make up the body of the ICJ, which meets in The Hague. In its 68 years of existence, the ICJ has been presented with about 200 cases,, including both contentious, i.e., between states, such as the legality of U.S. involvement in Nicaragua, and advisory, i.e., on questions from the UN and its agencies.

UN Agencies

When the UN was founded, a deliberate decision was made to keep it decentralized. Thus, the political operations of the UN are kept separate from the cooperative and technical branches of the UN's specialized organizations. The specialized agencies are organizations with varying degrees of independence that agree to coordinate their work through agreements with ECOSOC. Each specialized agency negotiates its own agreement with ECOSOC, which leads to a very intricate system in which different organizations maintain different types of relationships with ECOSOC. This system has led to some severe criticism. Agencies, when not competing for resources, may duplicate one another's work.

Lacking true coordination, the policies of one agency may directly conflict with the policies and, collectively, the agencies often fail to put forth a comprehensive and coalesced approach to complicated International problems. On the other hand, having specialized agencies often allows the International community to address specific problems without specifically entering into political debates. This approach ideally allows for more coordination among States on common technical concerns.

UN Related Organizations

Related organizations are similar to the specialized agencies, but they have more independence. They do not report to the UN political bodies, though their work may be the subject of UN debates, and they are run under the rules of their own founding documents.

World Trade Organization:

When the UN was first created, along with the World Bank and the IMF, the member states wanted to create a third organization dealing exclusively with trade. Unfortunately, even though the states drafted a charter for an International Trade Organization (ITO), several states, including the U.S., refused to ratify the charter and the ITO was dead before it was even properly started. While all of this was playing out politically, some

states adopted the several rules of the ITO in a provisional agreement, expecting these rules to serve as a makeshift measure until the ITO came into existence. When the ITO failed, their ‘provisional’ agreement, the General Agreement on Tariffs and Trade, became the prevailing multilateral International trade agreement until the World Trade Organization (WTO) was created in 1995.While this makes the WTO a relatively young International organization, its history stems from the trade negotiations handled previously under GATT. The WTO currently describes its duties as:

- Administering and acting as a forum for trade agreements;
- Settling trade disputes;
- Reviewing national trade policies; and
- Assisting developing countries in trade policy issues, through technical assistance and training programs.

IAEA

Inspired by U.S. President Eisenhower’s “Atoms for Peace” speech to the UN General Assembly, work drafting the statute of the International Atomic Energy Association (IAEA) began in 1955. When the statute was concluded in 1957, the IAEA assumed its role as the world’s forum for cooperation in the field of nuclear science. The IAEA defines its work in three pillars: nuclear verification and security, safety, and technology transfer. It works not only to ensure that nuclear weapons are not proliferated among states, but it also assists in the peaceful uses of nuclear technology, such as nuclear medicine and energy projects. A key document of International law operating under the auspices of the IAEA is the Treaty on the Non-Proliferation of Nuclear Weapons (NPT). The NPT holds stable the number of “legal” holders of nuclear weapons to five declared States, which coincides with the permanent seat holders of the UN Security Council – China, France, Russia, the U.S., and the U.K.

UN Programs and Funds

There are eights different UN programs and funds, which are financed through voluntary contributions rather than assessed contributions. Here we want to present two of them:

UNICEF : Seeing the devastation to Europe following the Second World War, the UN General Assembly created the UN International Children’s Emergency Fund (UNICEF) in 1946 to care for the needs of children in the post-conflict situation. Though it originally was intended to be a short-term program, in 1950, the UN decided to extend the mandate of UNICEF permanently, and in doing so, shortened its name to the UN Children’s Fund (still called UNICEF). UNICEF works to promote the welfare of children, including efforts in the areas of child health, education, and protection. One of its guiding documents is the Convention on the Rights of the Child, which is the most widely accepted human rights treaty in history.

UNHCR : Similar to UNICEF, the UN High Commissioner for Refugees (UNHCR) was originally created to last only three years and address the problem of European refugees following World War II. However, as different conflicts around the world continued to create refugees, the mandate of the UNHCR was continually renewed. Today, UNHCR claims more than 7,000 personnel working in 123 countries, participating in a wide range of operational activities including legal protection, public affairs, logistics, and health. The 1951 Convention Relating to the Status of Refugees defines what a refugee is and what rights are accorded to them. While the UNHCR primarily works to safeguard these rights, its work also extends to reach internally displaced people who have been forced to move within their own country, and promoting the skills of refugees supporting themselves.

Regional Organizations

The following is an introduction to some of the more prominent regional organizations. However, it is simply an introduction, as there is a vast group of regional organizations. States often share common regional interests and therefore find it easier to collaborate within a single region. Each organization tends to be distinct according to the desires of its constituents. Some regional organizations, like the European Union (EU), have such binding authority that they can overrule the national laws of one of their member states, while others, like the Association of Southeast Asian Nations (ASEAN), have based their organization on the principles of non-intervention in domestic affairs.

European Union (EU): The European Union (EU) is perhaps one of the most fully integrated and functioning regional organizations. It has its own judicial system, own currency, and has the ability to create a cohesive foreign policy. Currently it has 28 member States. The EU includes the European Parliament (elected directly by the citizens of member states), the Council of the EU (representing governments of member states), the European Commission (serving as the executive body of the EU) and the Court of Justice (adjudicating matters under EU laws).

Association of Southeast Asian Nations (ASEAN): The Association of Southeast Asian Nations (ASEAN), founded in 1967, currently counts ten Southeast Asian states as its members. The twin goals of ASEAN are to accelerate economic growth, social progress, and cultural development and to promote regional peace and security. ASEAN has played a critical role within the Southeast Asian region in establishing understandings related to free trade, nuclear weapons, and relations with other regional organizations.

Organization of American States (OAS): All 35 States of the American Hemisphere have ratified the Charter of the Organization of American States (OAS). The OAS was officially established in 1948, though its foundation is based on a long history of cooperation within the Americas region. While the OAS has some similar institutional features to the EU, the American region has chosen not to integrate their political and economic systems as closely as the EU.

While there is an Inter-American Court of Human Rights, an Inter-American Development Bank, and a Permanent Council, the OAS has not been given as much authority over domestic policy as the EU member states have vested in the EU.

Conclusion

As discussed earlier, International law has traditionally been based on the notion of state sovereignty, but that concept has been breaking down because of globalization. Interactions between states have become more complicated, involving a wide array of issues that require them to give up some of their sovereignty to have effective relations with each other. Similarly, International law has begun to deal with issues traditionally inside the borders of individual states, such as human rights. These developments have become very controversial, however. International law is often criticized for a lack of legitimacy.

For example, the law is shaped to a large degree by politics within the International system. An action, though clearly illegal in terms of International law, may go unpunished due to overriding political considerations. Since the UN Charter gives veto authority to five Security Council members, who would presumptuously veto any measures to enforce International law against their own state, the legitimacy of an organization with such unequal application of the law must be questioned to a certain degree. When the most powerful players determine the rules of the game, how legitimate can these rules be? Furthermore, many countries routinely and clearly violate International human rights law. Why are they allowed to help set what the law is?

Indeed, non-elected bodies wield significant power in the formulation of International law, from the UN Security Council to the dispute settlement body of the WTO. They make decisions and implement policy that can affect people around the world, but if those people are unhappy with these decisions, or if the choices made fail to reflect their interests, when the actors are in the International system, the people affected rarely have the power to hold them accountable. How can people trust International law and International organizations when there is no direct connection between them?
These questions are central to the question of whether the current rules of International law – the way they are made, and the way they are implemented – are a fair means of governing the world.

Thank You

Day 02

International Politics

— Introduction —

Welcome to **International Politics** ! Today we will deal with systems of government, the analysis of political activity, political behavior, and power. So, you will be able to examine a wide range of topics, from how laws get made to why wars are fought to how political parties develop and win elections. Because power takes many forms, political science often overlaps with economics, psychology, sociology, and the other social sciences. The overall field of political science includes several major sub-fields. The most important fields are comparative politics, International relations, political economy, and political theory.

- Political Theory includes all political philosophies from Plato to the present. This sub-field tries to answer questions about such abstract issues as ethics, the nature of liberty and freedom, and how governments should function.

- Comparative Politics compares systems of government in other countries. For example, a comparative political scientist might compare the political systems or constitutions of the USA and Brazil.

- International Relations scholars examine the ways in which nations interact. International relations focuses on how states *relate* to one another, such as why and how states trade, cooperate, and fight.

- Political Economy is the study of how economics and politics affect each other. Political scientists might look at the impact of economic power on International relations or how different economies develop within similar political systems.

Political Theory

Ancient Times

In Ancient Times the Greek philosophers *Plato* and *Aristotle* were two of the most influential political thinkers:

The philosopher Plato (427-347 BC) wrote numerous dialogues about politics, asking about the nature of justice, what constitutes good government, and what is truly best for humanity. As the first philosophical examination of "justice" in Western literature, he seeks to discover justice in the individual by defining justice in the state. In his famous writings *The Republic*, *The Statesman*, and *The Laws* he outlines the ideal state and explores "corrupt" or "deviant" regimes (timarchy, oligarchy, democracy, and tyranny) through an analysis of their leading symptoms.

While often denounced as an enemy of the "open society," Plato suggests that ruling is a kind of science or craft and concludes that only those trained in this craft should be permitted to govern. He introduces a new element – *adherence to law* – which becomes the basis for evaluating good and bad forms of regime types. Those regimes which follow the law are far better than those that do not. He also prefigures the famous "mixed" or "balanced" constitution, observing that democracy should be tempered with monarchy. Plato's political philosophy has been the subject of much criticism. He was highly critical of democracy and believed in an aristocracy ruled by philosopher-kings. However, Plato's interest in existing institutions and appreciation for imperfect regimes serves as a bridge to the more empirical and realistic politics of Aristotle.

Plato's student Aristotle (384-322 BC) worked in a more scientific way, observing and describing types of governments systematically. He declared in his work *The Politics* that "man is by nature a political animal." However, there is a tension between two forces which move us; the Greeks termed them ethos (morality) and kratos (power). Is doing the politically prudent thing compatible with doing the moral thing? Aristotle, like Confucius much further east, believed in the continuity between moral character and political interests. He deemed politics as well as morality to be based on knowledge.

While Aristotle's remarks on slavery, women, and laborers are often embarrassing to modern readers, his analysis of regime types (including the causes of their preservation and destruction) remains of perennial interest. His discussion of "polity"- a fusion of oligarchy and democracy – has been of particular significance in the history of popular government. Finally, his contention that a constitution is more than a set of political institutions, but also embodies a shared way of life, has proved a fruitful insight in the hands of other political thinkers.

European Enlightenment

During the European Enlightenment philosophers like Niccolo Machiavelli, Thomas Hobbes, John Locke, Montesquieu, and Jean-Jacques Rousseau started to break away from tradition and forge new ways of understanding the world.

Niccolo Machiavelli (1469-1527) finally drove a wedge between the unequal siblings of politics and virtue: A statesman should only be concerned with being powerful, not with being kind or good. His work *The Prince* is at once the most famous and infamous work in the canon of political thought. Instead of considering questions of justice and the ideal state, Niccolo Machiavelli proposed to advise a “new” prince on how to successfully maintain power.

Given the realities of human nature and politics, it is sometimes necessary for a prince to “do evil,” including acts of violence and cruelty, in order to survive. For Machiavelli, the capacity for such acts is an essential part of a ruler’s “skill set.” Such stark realism has led many to denounce Machiavelli as an “adviser to tyrants” and a “teacher of evil.” Others have defended the *Prince* for its author’s realistic appraisal of politics and tough-minded advice for a dangerous world. This “little book” (as Machiavelli called it) will undoubtedly continue to provoke highly varied responses.

Best known as the “father” of modern absolutism, Thomas Hobbes (1588-1679) is also credited as the “father” of modern political science. In *Leviathan*, his principal work, the English philosopher endeavored to establish a new “science of politics” on the basis of the first principles of human nature. While his conclusion — that without an all-powerful Sovereign life would be a “war of all against all” — was largely rejected by his contemporaries, his reliance on natural law inaugurated a new era in political thinking.

His use of the “social contract” as a method of explaining the origin and legitimacy of public authority would be adopted to more liberal ends by thinkers such as Locke and Rousseau. Moreover, Hobbes’s contention that men possess “natural” rights — that by nature individuals are free, equal, and autonomous — readily lent itself to theories of limited government. For this reason, Hobbes is often identified, paradoxically, as the “father” of modern liberalism. In simple terms, Hobbes states that man is evil. Therefore, a government is needed to protect the public. The government should be all powerful and the power should be centralized.

Few political thinkers have had such a profound and lasting influence as John Locke (1632-1704). His *Second Treatise*, written against the backdrop of political crisis and revolution, contains classic arguments against despotic government. Drawing on the tradition of natural law, Locke developed a theory of natural liberty that placed limits on civil authority. For Locke, government is founded in human need and arises from “inconveniences” in the “state of nature.” Like Hobbes, he finds the origins of political authority in the “social contract,” a voluntary agreement to enter into civil society.

Unlike Hobbes, however, the sovereignty of the people is not permanently transferred to an absolute "Sovereign," but is temporarily delegated to a government of limited power. Locke also made important contributions to the concepts of equality, rule of law, separation of powers, majoritarianism, and the right to revolution. Along with its theory of (private) property, the *Second Treatise* remains the seminal text of classical liberalism. In simple terms, Locke states that man is good. However, a government is wanted to benefit the public. The government should be conditional and the power should be shared.

Baron de Montesquieu (1689-1755) focused on the relations between law, liberty, and government. His attention to the influence of social factors on law and government has led modern scholars to call him the "father" of sociology. He is best known for his discussion of the English constitution, his model of a modern free government. For Montesquieu, English liberty is the product of a balanced constitution, and specifically the separation of legislative and executive power. These reflections, as well as his observations on the conditions which support republics, would exercise a powerful influence on the American Founders, who appealed to Montesquieu — "that great man" — with considerable frequency.

"Man was born free, and he is everywhere in chains." Thus begins the *Social Contract*, the principal work of Jean-Jacques Rousseau (1712-1778). Like Hobbes and Locke, Rousseau used the "social contract" to explain the origins of civil society, but in his version sovereignty is not transferred to the government, but remains with the people. In Rousseau's ideal republic, the citizens legislate directly in accordance with the "general will," the common good. To recognize this good, citizens must be trained in virtue. Only then will they be fit for self-government; only then will they be truly free. His model of a small city-state was out of step with the times, but his general ideas on liberty and democracy were highly influential.

Industrialization and Modernity

As Industrialization overtook Europe and the United States in the 19th century, socials theorists began to change their political approaches. The most significant modern thinkers include *Karl Marx*, *John Stuart Mill*, *Max Weber*, and *John Rawls*.

The theories of Karl Marx(1818-1883) about society, economics and politics – the collective understanding of which is known as Marxism – hold that human societies progress through class struggle: a conflict between an ownership class that controls production and a dispossessed laboring class that provides the labour for production. States, Marx believed, were run on behalf of the ruling class and in their interest while representing it as the common interest of all; and he predicted that, like previous socioeconomic systems, capitalism produced internal tensions which would lead to its self-destruction and replacement by a new system: socialism.

Marx argued that class antagonisms under capitalism between the bourgeoisie and proletariat would eventuate in the working class' conquest of political power and

eventually establish a classless society, communism, a society governed by a free association of producers. Marx actively fought for its implementation, arguing that the working class should carry out organised revolutionary action to topple capitalism and bring about socio-economic change. His books *The Communist Manifesto* and *Capital* spurred the Russian Revolution of 1917.

On liberty of John Stuart Mill(1806-1873) remains the classic defense of individual freedom and the open society. For Mill, human happiness — the "greatest good" — is only possible in a free society where individuals are at liberty to make decisions about their lives. These decisions, including what to think, say, read, and write, should be free from state interference and left to the discretion of individuals. Believing that discussion, debate, and diversity were essential to the progress of society, Mill called for the widest degree of latitude for individual expression and even encouraged "experiments in living."

Fostering individuality would, in turn, benefit society as a whole, because fewer people would feel restricted or marginalized. As long as people respect the rights of others, they should be allowed to think and live as they choose. Some beliefs and ways of living might be better than others, but it was not the proper role of the state to regulate such matters. Unlike classical liberals, Mill did not base his argument for liberty on natural right, but on utility or the "greatest happiness" principle. His strong defense of individual liberty and self-determination place him in the vanguard of liberal thinkers.

Economist and sociologist Max Weber (1864-1920) argued that religion, not economics, is the central force in social change. According to Weber, Protestants seeking an outward affirmation of their godliness brought about the birth of market-driven capitalism in the Western world. Against Marx's "historical materialism", Weber emphasized the importance of cultural influences embedded in religion as a means for understanding the genesis of capitalism. Weber defined the state as an entity that successfully claims a "monopoly of the legitimate use of physical force within a given territory". His analysis of bureaucracy emphasized that modern state institutions are increasingly based on rational-legal authority.

Professor John Rawls (1921-2002) was one of the most important political philosopher of the 20th century. His work in political philosophy takes as its starting point the argument that "the most reasonable principles of justice are those everyone would accept and agree to from a fair position". He argued that we should strive to develop a society based on equality.

Political Science

Politics impact our lives every day. Our political choices determine our government, which, in turn, determines whether we can vote, how much we pay in taxes, which utilities we use, whether we can run a business, and even which types of food we eat. Just about everything in our lives is affected by politics and government.

The democratic system of government is just one way of organizing a political system. Throughout history, there have been many systems of government and even different

types of democracies. Political science is the attempt to study politics and government in a systematic way in order to learn how power works. As an academic discipline, political science is fairly new, but people have studied politics for thousands of years.

What is Political Science?

Political Science Today

Political science is the systematic study of politics, or the process by which governmental decisions are made. As a famous definition puts it, politics is determining who gets what, where, when, and how. The political scientist is an objective observer who asks questions about and studies the effects and structures of different systems of governments.
In the last few decades, political science has become more solidly established. Political professionals work on campaigns (as well as news shows) at all levels to help sway voters, and many elected officials analyze data to help make policy choices. Today, many political scientists use statistics and other quantitative methods to study a variety of issues.

Key Terms

Political scientists rely on several important concepts:

- Power: The ability to get others to do what you want. Power can take many forms, from brute force to articulate persuasion.
- Government: The organization of power within a society, specifically how power is divided and used.
- Regime: The form of government or the set of rules, cultural or social norms, that regulate the operation of a government or institution and its interactions with society.
- Legitimacy: Occurs when citizens accept the political decisions made by the governing body. A government is considered legitimate if its citizens think it right, lawful, and proper that the government should hold power. A threat to legitimacy seriously undermines the power of the government.
- Authority: The ability of the government to exercise power without resorting to violence. A government with a high level of legitimacy tends to have a high level of authority. Its citizens usually obey the law because they think it is the right thing to do, not because they are afraid of punishment.
- Sovereignty: The right to exercise political power over a group of people or a geographical area. A government is considered sovereign if it has the final word on political decisions within its boundaries. When citizens can appeal to a higher body, the government is not sovereign. (Example: Regional governments have often a great deal of power, but ultimately they are not sovereign because the federal government can overrule them.)

Types of Regimes

Political scientists refer to regimes using many different terms. In politics, a regime is the form of government or the set of rules, cultural or social norms, etc. that regulate the operation of a government or institution and its interactions with society. Which term political scientists use often depends on two factors: the number of people with political power and the amount of power the government itself exerts.

1. Number of people in power

The first table below organizes regimes by the number of people who hold political power.

Regime	**Number of people in power**	**Examples**
Monarchy	One	Saudi Arabia, Jordan, Medieval England
Dictatorship	One	North Korea, Nazi Germany
Aristocracy	A few (small ruling class)	Ancient Sparta
Oligarchy	A few (small group of wealthy individuals)	Renaissance Venice
Democracy	Many or all	USA, India, Germany, France, ancient Athens

A wide variety of regime types exist. For example, the United Kingdom has a constitutional monarchy, in which Queen Elizabeth holds a limited amount of power. Theoretically, the queen is the English head of state, but over time the English monarchy has become largely ceremonial. Real governmental power now rests with the Parliament, the legislative, lawmaking body. In contrast, the Third Reich of World War II was a totalitarian dictatorship. Adolf Hitler controlled the government and the citizens of Nazi Germany.

2. Amount of government power

The second table organizes regimes by the amount of power the government possesses.

Regime	Amount of power	Examples
Totalitarian	Absolute power; controls every aspect of its citizens' lives	Soviet Union, North Korea, Nazi Germany
Autocratic	Regime controls most aspects of its citizens' lives; often associated with a single ruler.	Iraq before 2003
Authoritarian	Regime controls most aspects of its citizens' lives; regime often outlasts its rulers.	China, Egypt before 2011
Constitutional	Limited by specific rules, such as the citizens' right to free speech or freedom of religion.	United States, India, United Kingdom, Germany, Japan
Anarchist	No power, or simply no government; can occur when a government loses its power.	Somalia

Democracy

The word democracy comes from the Greek words demos, which means "the people," and cracy, which means "rule by." Today, we call a regime a democracy when many or all of its people share political power. There are two types of democracies:

Direct democracy: Citizens make all the decisions. They gather frequently to vote on laws, regulations, and appointments. There are no elected representatives. Direct democracy was common in ancient Greece; today, it exists at a local level in town hall meetings held throughout the United States.

Representative democracy: Citizens elect officials to act on their behalf. If the officeholders disappoint or anger them, the citizens can choose new officials at the next election. A regime that runs by representative democracy is known as a republic. In a republic, citizens hold the power. There are two major types of representative democracies:

- *Parliamentary democracy*: Citizens elect officials to act as legislators. The legislature then elects the executive (frequently called the prime minister) from its members. Many European democracies use a parliamentary system. One advantage of this type of democracy is its ability to quickly respond to public opinion. If the prime minister loses the confidence of voters, new elections can be held immediately. But parliamentary governments can be unstable. Perhaps the classic example is Italy, which changed governments about once a year for fifty years following World War II.

- *Presidential democracy*: Citizens elect the legislators and executive separately. No one can be both a legislator and the executive at the same time. The United States is a presidential democracy. Although a presidential system can be slow to respond to changes in public opinion, it is likely to be more stable than a parliamentary system.

Strengths and Weaknesses

	Direct Democracy	**Representative Democracy**
Strength:	Most purely democratic form of government because the people literally rule.	Can take place in a much larger country; grants citizens much more time to pursue private interests.
Weakness:	Difficult to form except in small communities; demands constant attention from its citizens.	Can be slow to respond to public opinion; sometimes defies public opinion.

Key Features of a Democracy

All democracies, in theory, should provide four basic things:

- Security: Like all governments, a democracy should protect its citizens from danger and threats, both national and abroad.

- Liberty: A democracy bestows on its citizens the right to do certain things without interference. The most common liberties are freedom of speech, thought, religion, and assembly. Most democratic governments are

limited—that is, there are fundamental rights that the government cannot take from its citizens.

- Political Equality: All citizens should be treated the same way. Each person gets one vote in elections, and the law is the same for all people.

- Popular Sovereignty: In a democracy, supreme power rests with the people. The people choose their government, and the people can change the government when they see fit. In return, the government should do what the people want.

In reality, these features do not always fit together well, and democracies must work to create a balance. But the balance changes as the people decide they want to emphasize one feature over another. Sometimes strengthening one feature causes another feature to decrease or to disappear. Since the attacks of September 11, 2001, Americans (who traditionally tend to value liberty more than anything else) have become more concerned with issues of security. In response, the government has increased security by limiting some freedoms—making it easier for the government to investigate its citizens, for instance.

Power and Legitimacy

Political Power

Where does political power come from? Political Scientists have developed two models to explain the source of political power:

Percolation-Up Model	Political power rests with the citizens. In turn, citizens grant political power to their leaders through elections. This view appeals to our democratic sensibilities. However, throughout most of human history strong and stable governments ignored their citizens.
Drip-Down Model	Political power rests with the leaders, who organize society and impose order. Nevertheless, citizens retain the power to overthrow the government by electing new leaders.

Political scientists use both of these views in different circumstances. Sometimes change happens in a society because of a genuine grassroots effort. In other cases, government leaders create a policy and impose it on the people. And sometimes both happen.

The civil rights movement in the United States had elements of both percolation-up and drip-down models of power. Much of the original push for the movement came from

African Americans, who were angry about their status as second-class citizens. They organized and staged a variety of protests to bring about change—an example of the percolation-up model in action. After it became apparent that many state governments (especially, but not only, in the South) would resist giving African Americans equal rights, the federal government began asserting its power to enforce laws and court decisions—an example of the drip-down model in action.

Political Legitimacy

All governments need legitimacy to survive. But how do governments attain authority? What makes citizens obey or feel loyal toward their governments? Political scientists have answered these questions by concluding that political legitimacy comes from several sources:

- Tradition: The government has authority because its citizens have a long tradition of giving it authority and respect. This source mostly comes into play with governments that have been around for a long time.

- Habit: Most people are raised to obey the laws, and they thereby acquire the habit of obeying. Citizens give their government legitimacy and authority because that is what they have always done.

- History: People remember great deeds and events in the country's history, and they obey the government out of a sense of historical pride.

- Religion: In some places, obedience to the government is seen as a religious obligation. (Example: Iran is a constitutional Islamic republic. Some of its governing bodies are elected, whereas others are put into place for religious reasons.)

- Ethnic identity: Countries composed of exclusively one ethnic group or whose regime is strongly connected to one ethnic group can inspire obedience through ethnic identity. Members of that ethnic group respect the government because of its link to their ethnicity. (Example: Saddam Hussein's Sunni regime in Iraq once inspired a great deal of loyalty in Sunni Arabs.)

- Results: If a government succeeds in some way—for instance, through a military victory or a thriving economy—citizens may feel loyalty because of that success.

- Elections: A government that holds elections gains legitimacy because citizens believe that the government, composed of elected officials, represents them.

- International recognition: A government gains legitimacy when other governments recognize it and welcome it to the International community. (Example: Taiwan still has not received formal recognition as a nation-state to this day by most countries.)

Political Ideologies

Our ideologies shape the way we perceive the world. Ideologies also influence our behavior and how we make decisions. In politics, ideology often determines whom we vote for. On a larger, more global scale, ideologies often heavily influence political parties, leaders, and policy. People's firm belief in their ideologies has led them to cause wars, found countries, ignite revolutions, wage genocide, and create empires. As a result, understanding the various major political ideologies that have shaped much of our history is fundamental to understanding political science.

An ideology is a set of beliefs that affects our outlook on the world. In fact, these beliefs are often so close to us that we do not realize that they are there. We simply think that our beliefs are natural and obviously true. Over the millennia, political philosophers have expounded on a variety of political ideologies, or ways governments and societies can be organized. Today, scholars generally talk about five major political ideologies:

Anarchism

The belief that the best government is absolutely no government is known as anarchism. This ideology argues that everything about governments is repressive and therefore must be abolished entirely. A related ideology known as nihilism emphasizes that everything—both government and society—must be periodically destroyed in order to start anew. Nihilists often categorically reject traditional concepts of morality in favor of violence and terror. Anarchism and nihilism were once associated with socialism because many anarchists and nihilists supported the socialists' call for revolution and the complete overhaul of government and society in the early to mid-twentieth century. Russia has had a long association with anarchism and nihilism. Many prominent members of both movements were Russian, including Mikhail Bakunin, considered the father of anarchism. Russian nihilists engaged in a number of terrorist attacks in the late nineteenth and early twentieth centuries, including the assassination of Czar Alexander II in 1881.

Absolutism

Traditionally, much of Western civilization's history was dominated by absolutism, the belief that a single ruler should have control over every aspect of the government and of the people's lives. Absolute rulers had a variety of titles, including chieftain, king, shah, pharaoh, emperor, sultan, and prince. In some cultures, the absolute ruler was seen as a god in human form. Other peoples believed that their ruler had the divine right of kings, meaning that God had chosen the ruler to govern the rest. As a result, many cultures with absolute rulers practiced some form of *caesaropapism,* the belief that the ruler is head of both the governmental authority and the religious authority.

A number of political philosophers have advocated absolutism. The Greek philosopher Plato, for example, firmly believed that the best government would be run by a benevolent absolute ruler who would have the people's best interests at heart. English philosopher Thomas Hobbes, meanwhile, was perhaps the most persuasive proponent of absolutism. He argued that life without governments was "nasty, brutish, and short" and that people must willingly submit to absolute rulers—even tyrannical ones—in order to live longer, more stable lives.

Absolutist Beliefs

- A strong sense of order: Everything should be carefully structured, including society. Disorder and chaos are generally considered to be dangerous.
- A clear-cut law of nature (or law of God): This law must be obeyed. According to this law, some people are inherently better than others. A natural hierarchy (a power structure in which some people have authority over others) exists. Therefore, the superior should rule the inferior. This general view is called elitism, or elite theory.
- The wisdom of traditional values and institutions: New ideas are considered dangerous to the order of things.

Liberalism

In the early modern age of the Western world, a number of changes occurred that led to new ideologies: The European discovery of the Americas, the rise of Protestantism, the beginnings of the free-market economy, and the early stages of the scientific revolution fundamentally altered Europe. People began developing different ways of thinking to take account of these changes. Perhaps the most important of the new ideas is liberalism (also known as classical liberalism), which began in England in the 1600s. Classical liberalism developed when such thinkers as John Locke rethought the relationship between the individual and society, as well theorized about the rights and responsibilities of the individual. These ideas formed the foundation for many political systems still operating today.

Liberal Beliefs

- Individualism: The individual takes priority over society.
- Freedom: Individuals have the right to make choices for themselves. This freedom is not absolute, and some behaviors, such as murder, are prohibited. Freedom of religion is a particularly important freedom to come out of liberalism because so many governments at the time were very closely tied to a particular religious creed.
- Equality: No person is morally or politically superior to others. Hierarchies are rejected.
- Rationalism: Humans are capable of thinking logically and rationally. Logic and reason help us solve problems.

- Progress: Traditions should not be kept unless they have value. New ideas are helpful because they can lead to progress in the sciences, the economy, and society.

- The free market: Liberalism and capitalism go hand in hand. Liberals like the free market because it more easily creates wealth, as opposed to traditional economies, which often have extensive regulations and limits on which occupations people can hold.

These basic characteristics of liberalism have led liberals to argue in favor of a limited government, which draws its power from the people. In practice, this has meant favoring a democratic government. Classical liberalism has profoundly influenced the modern world, so much so that we do not even realize how controversial its ideas were in early modern Europe. Back then, liberal ideas were considered dangerous and inflammatory by traditional European governments, and liberals were frequently persecuted. Even after liberalism took hold in England, the rest of Europe was hostile to liberal ideas for another century (and even longer in some cases).

Conservatism

Conservatism (also known as classical conservatism) began as a reaction against the liberal ideas taking hold of Europe during the French Revolution in the late eighteenth century. Edmund Burke, a British member of Parliament, observed the early stages of the French Revolution with great distress and predicted the violence and terror that would ensue. Burke and other conservatives attacked liberalism for many reasons. They argued that liberalism destroyed tradition. In its rush to overturn the old and bring in the new, liberalism and capitalism ruthlessly attacked traditional institutions and beliefs.

Conservative Beliefs

Conservatism emphasizes:

- Stability: Stability is a precious thing, and change must be made gradually in order to preserve it. Undermining stability is very dangerous because societies can easily fall into chaos and violence. Classical liberals frequently called for revolution, which opens the door to great turbulence, according to the classical conservative view.

- Concreteness: Liberalism is too abstract. It focuses on freedom and equality, not on the concrete way people live every day.

- Human fallibility: Liberalism overestimates human beings. Humans are frequently ignorant, prejudiced, and irrational. By ignoring these defects, liberalism becomes unrealistic.

- Unique circumstances: There is no universal answer to the problems of society; the circumstances are unique in each country.

Classical Conservatism and Democracy

Many early conservatives favored authoritarian government. In the aftermath of the Napoleonic Wars (roughly 1792–1815), for example, most European governments actively worked to stop the spread of liberalism and democracy. Nevertheless, conservatives were not necessarily hostile to democracy. Generally these conservatives argued that some sort of monarchy was necessary, but some were more open to popular government. Burke, in particular, thought that limited democracy was a good form of government for England, as long as it maintained the customs and mores it inherited from its predecessors.

For the most part, classical conservatism has faded. Most people who label themselves conservatives are more like modern conservatives than classical ones. But there are still some classical conservatives. Many of them in Europe have ties to old noble families, and some advocate monarchism.

Classical Liberalism vs. Classical Conservatism

Liberals believe that *tradition* is only valuable if it serves a purpose and we should not be afraid to overturn tradition. *Freedom* is essential for human flourishing and all people are free to do as they please as long as they do not hurt others. The free market is valuable because it unleashes tremendous economic growth and efficiency. Conservatives, on the other hand, believe that *tradition* is a collection of best knowledge from many years of practice. Excessive *freedom* is bad, because it lets people ignore societal responsibilities and overlook social customs. A free market can also be dangerous, since it breaks down traditional economic roles.

Socialism

Socialism arose as a response to the Industrial Revolution, which was the emergence of technologies such as the steam engine and mass production. The Industrial Revolution started in England in the last years of the eighteenth century and had spread to much of Europe and America by the end of the nineteenth century. It caused major upheavals: In a very short time, many people were forced to abandon agricultural ways of life for the modern mechanized world of factories. Karl Marx is the best-known theorist of socialism. Along with Friedrich Engels, Marx wrote The Communist Manifesto (1848) as a call to revolution.

Socialist Beliefs

Socialism emphasizes:

- Collectivism: Human beings are social by nature, and society should respect this. Individualism is poisonous.
- Public ownership: Society, not individuals, should own the property.
- Central economic planning: The government plans the economy; there is no free market.

- Economic equality: All citizens have roughly the same level of prosperity.

According to socialists, liberalism fails to live up to its promises of freedom and equality. Socialists blame the free market for liberalism's failings. Under a capitalist system, money and means of production are the measures of power. The haves (the bourgeoisie, in Marx's terms) and the have-nots (whom Marx calls the proletariat) are locked into a fight that Marx called class warfare. Because they control the money and means of production, the bourgeoisie have the power and thus are winning the fight. The rich use the government to further their control and to increase their power over the lower, poorer classes, so people are neither free nor equal. Socialism evolved in a variety of ways. Communism and democratic socialism are the two most prominent evolutions of socialism.

Communism

Communism is an authoritarian and revolutionary approach to achieving socialism. As an ideology, communism emphasizes a classless society in which all members jointly share the means and output of production. The regimes of the Soviet Union and communist China embody this ideology. Communists such as Vladimir Lenin, who became the first premier of the Soviet Union in 1917, argued that people can and must make the transition to socialism quickly rather than waiting for it to evolve.

Authoritarian and violent measures are often required because the defenders of capitalism will fight ferociously to stop socialism from coming into being. With the fall of communist regimes in Russia and Eastern Europe, communism has been in retreat for most of the 1990s and 2000s. But there are still several major communist regimes, including the governments of North Korea and Cuba.

Democratic Socialism

Democratic socialism is a peaceful and democratic approach to achieving socialism. As an ideology, democratic socialism also emphasizes a classless society in which all members jointly share the means and output of production. But unlike communism, democratic socialism attempts to achieve its goals peacefully via the democratic processes. Democratic socialists reject the need for immediate transition to socialism in favor of a gradualist approach, achieved by working within a democratic government.

Economic inequalities should be remedied through a welfare state, a system that provides aid to the poor and help to the unemployed. Democratic socialism has been quite successful in western Europe and Scandinavia. Many governments there have extensive welfare systems that have remained largely intact even when democratic socialists are voted out of office. Germany's Social Democratic Party, the French Socialist Party, and Britain's Labor Party are contemporary examples of successful political parties heavily influenced by democratic socialism.

Political Styles

States and political leaders use a variety of political styles to further the interests of the state. Political scientists debate whether those styles like nationalism, fascism, and fundamentalism constitute distinct ideologies in and of themselves. On the one hand, these styles are not as well codified or philosophically grounded as the five political ideologies previously discussed (anarchism, absolutism, liberalism, conservatism, and socialism). On the other hand, each has played a key role in shaping events in world history generally and twentieth-century governments specifically. Keep in mind that these styles and the five political ideologies are not mutually exclusive, so a government could be nationalist *and*liberal or fascist *and* conservative.

Nationalism

Nationalism, a strong belief that one's nation is great (and, usually, better than others), also arose during the modern era. In the eighteenth and nineteenth centuries, nationalism emerged as a powerful force that caused a number of revolutions. People began to identify with and take pride in their particular nation-state. The French Revolution and the subsequent Napoleonic Wars helped spread nationalism throughout Europe because many nations rallied together to defeat Napoleon.

Nationalist Beliefs

Nationalists believe that being a member of a particular nation is wonderful and worthy of celebration. For example, one should honor one's "Frenchness" if from France or "Americanness" if from the United States. This belief is not tied to any one political system. Nationalists favor behavior, governmental systems, and other values or behaviors that promote a strong nation, including a powerful economy, a strong military, and unity among citizens. Threats to the nation are taken very seriously and need to be addressed. Historically, there have been many authoritarian regimes, in which governments may do whatever they want, that were strongly nationalist in character, but there are plenty of democratic nationalist states as well. The means of promoting a strong nation vary greatly from one nationalist state to another.

Fascism

Fascism is a highly nationalist, militaristic, totalitarian political ideology in which one person has absolute power. World War I was the key event that spawned fascism. The war was the first major war fought between industrialized nations, which were armed with technology such as machine guns and chemical weapons. The result was utter devastation. Millions died, entire countries collapsed, and those who survived were often profoundly disillusioned. For many people, the war showed that modern ideas had failed and that a new way was needed.

Fascism arose in Italy in the 1920s. Italy had fought on the winning side of World War I, but it had suffered greatly. Many Italians were angry and disappointed that the country gained very little for the price it paid. Some war veterans felt alienated from society: They had grown accustomed to the horrors of war, and now normal life seemed unreal and incomprehensible. Some of these war veterans began to rally together, trying to re-create the camaraderie of the war. Their meetings led to the development of fascism. In its original form, fascism was neither racist nor anti-Semitic. Indeed, some early Italian fascists were Jewish.

Although Italy was the birthplace of fascism, it spread to other countries. In the mid- to late twentieth century, the Spanish government under General Francisco Franco was fascist, as were the Argentinean government under Juan Perón and some of the governments in Eastern Europe before WorldWar II. The Japanese government before and during World War II also shared some fascist ideas.

Fascist Beliefs

Fascism emphasizes:

- Action: Human beings find meaning and purpose by acting, not by reasoning or thinking.
- Community spirit: People need to be part of a community. Individualism is dangerous because it turns people away from their community.
- Nationalism: The community that matters the most is the nation. People should work together to promote the glory and power of the nation.
- Militarism: The nation must have a strong, powerful military. The nation shows its power by expanding its territory.
- One party: The nation must be unified and speak with one voice. Therefore, only one political party is allowed, and that party rules with absolute power.
- Violence: The government rules its people through violence or the threat of violence.

Nazism

Nazism is a particular variety of fascism that combines elements of anticommunism, racism, and anti-Semitism. In the 1920s, Nazism arose in Germany as a result of its defeat in World War I. The Treaty of Versailles, which ended the war in 1918, imposed harsh sanctions on Germany. Many Germans felt humiliated and angry. The economic disaster of the Great Depression a few years later added to their sense of despair. Nazism appealed to many of these people because it offered meaning, hope, and solutions. Nazis came to power in the early 1930s in Germany, led by Adolf Hitler. Its aggressive foreign policy led to the start of World War II in 1939. Although Nazism was defeated and discredited with the German defeat in the war, some groups around the world are still influenced by this ideology.

Nazism shares a number of things with fascism, including strong nationalist sentiment, a focus on community, and the value it places on action, militarism, and authoritarian government. But Nazism differs from fascism in two significant ways:

- Belief in a mythical past: Nazism looks back to a mythical past for inspiration. German Nazis saw themselves as heirs to the Teutonic knights of medieval Europe, fighting against evil for the good of the German people.
- Racial purity: A core part of Nazism is virulent racism. In particular, German Nazis hated Jews, blaming them for all of the evils of the world. But other groups, including Slavs and gypsies, were also considered inferior and fit only for slave labor. This racist belief led to the Holocaust, in which millions of Jews, Slavs, gentiles, and others were killed in a Nazi attempt to "purify" Europe.

Fundamentalism

In its most basic meaning, fundamentalism is the belief that a religious text is absolutely and literally true and that anything opposing the text must be wrong. All behavior and belief must be guided by this central text, and anything else is sinful. Scholars use the terms fundamentalism and fundamentalist to describe some religions. Nearly all religions have fundamentalist believers or sects. In the United States, for example, Christian fundamentalists constitute a powerful portion of the population. These people (sometimes referred to as the Religious Right, Christian Right, or Christian Conservatives) have had a major impact on American politics, especially in the Republican Party. In recent years, Americans, Europeans, and secular Middle Easterners have been attacked by Islamic fundamentalists. India also got invaded by such ideological goons. These fundamentalists believe that Islam is the only true religion, that the Koran is absolutely and literally true, and that the Middle East should return to a single Islamic state. Fundamentalist extremists have had a huge impact on global politics since 2001.

Nations and States

Like an ideology, our nationality frequently determines how we behave and how we view politics. For much of the last 500 years, the nation-state has been the dominant political unit. But nation-states did not always exist. Indeed, other political forms dominated the world for most of world history, and the nation-state is a relatively recent phenomenon. Today, the nation-state still predominates, even as the recent rise of globalization and devolution promises to fundamentally alter global politics.

The Nation

A nation is a large group of people who are linked by a similar culture, language, and history. Members of some nations share an ethnicity, whereas other nations consist of ethnically diverse groups of people. However, the members of a nation see themselves as connected. Many members of a nation take pride in being a part of something bigger than themselves as individuals, and they celebrate their nation.

People disagree about what counts as a nation. Nationhood sometimes transcends geographical boundaries. Some groups consider themselves to be nations, even though much of the world does not consider them that way. Kurds, for example, live in Turkey, Iraq, and Iran, but many Kurds believe they belong to a Kurdish nation. In the end, determining what constitutes a nation is somewhat subjective. To put it crudely, the moment that an ethnic group starts to view itself as a nation, it becomes a nation. The Kurdish people, for example, became a nation when they started thinking of themselves as an ethnic group with a common language, history, and culture.

The State

A state is a political unit that has sovereignty over a particular piece of land. Sovereignty is the ultimate power within a territory. So the state has the power to make laws, defend its borders, and enact policies. The state also exercises a monopoly on the legitimate use of force: No group within its borders can use force legally without the permission of the state. Political scientists use the word state as a synonym for sovereign governments.

A state is the ultimate authority within a territory. Smaller political units—such as city governments—exist within a state, but ultimately the supreme power rests with the state. The government of the city of London, for example, has some power to enforce rules within Greater London. However, this governments do not have the final say: Local governments are not sovereign because they are subordinate to the government of Great Britain and must abide by the government's rules.

The Nation-State

Political scientists use the term nation-state to refer to modern countries and their political apparatuses. A nation-state is a state that rules over a single nation. France, for example, is a nation-state, as is Japan. The people in both countries overwhelmingly share a common language, history, and culture. The term nation-state reflects the situation in which the boundaries of a state coincide with the geographical area occupied by a nation.

In many nation-states, the government actively promotes the idea of common nationality. Children learn the same language and history in state-sponsored schools, and public events frequently invoke cultural heroes and icons. Citizens are often encouraged to work

for the betterment of the nation. These practices, among others, are known collectively as nation-building. Foreign governments also participate in nation-building. Sometimes a government will give money and advice to another country to help nation-building.

Nation-States Around the World

Today, most of Europe consists of nation-states. But in Africa and the Middle East, states frequently do not coincide with nations, largely as a result of European colonialism. In the nineteenth century, during what is now known as "the Scramble for Africa," the Europeans divided up the continent without regard to indigenous national boundaries. When the Europeans left and the former colonies became independent states, they mostly kept the borders established by the Europeans.

Throughout modern history, many groups have worked very hard to create nation-states. Sometimes, these efforts succeed, as with the unification of Italy in the late nineteenth century. In some cases, however, people have failed thus far in their attempts to create a distinct nation-state. Groups that continue to agitate for a nation-state include the Palestinians and the Kurds in the Middle East.

Rise of the Nation-State

The nation-state developed fairly recently. Prior to the 1500s, in Europe, the nation-state as we know it did not exist. Back then, most people did not consider themselves part of a nation; they rarely left their village and knew little of the larger world. If anything, people were more likely to identify themselves with their region or local lord. At the same time, the rulers of states frequently had little control over their countries. Instead, local feudal lords had a great deal of power, and kings often had to depend on the goodwill of their subordinates to rule. Laws and practices varied a great deal from one part of the country to another.

In the early modern era, a number of monarchs began to consolidate power by weakening the feudal nobles and allying themselves with the emerging commercial classes. This difficult process sometimes required violence. The consolidation of power also took a long time. Kings and queens worked to bring all the people of their territories under unified rule. Not surprisingly, then, the birth of the nation-state also saw the first rumblings of nationalism, as monarchs encouraged their subjects to feel loyalty toward the newly established nations. The modern, integrated nation-state became clearly established in most of Europe during the nineteenth century.

The Thirty Years' War and the Peace of Westphalia

The Thirty Years' War, fought throughout central Europe from 1618–1648 between Protestants and Catholics, laid the legal foundation for the nation-state. The war involved many nations of Europe, including many small German states, the Austrian Empire, Sweden, France, and Spain.

Despite a brutal war, the Catholics were unable to overturn Protestantism. The treaty that ended the war, called the Peace of Westphalia, decreed that the sovereign ruler of a state had power over all elements of both the nation and the state, including religion. Thus, the modern idea of a sovereign state was born.

Centralization, or the process by which law- and policymaking become centrally located, helped spur the development of nation-states. Final power rested with the central government, which made the laws and practices more uniform across the country. A single centralized authority, rather than many diverse local authorities, allowed nation-states to quickly develop their economies. Merchants could trade throughout the nation without worrying about local taxes and regulations.

Also, the nation-state was much stronger militarily than the feudal state. Rulers were able to create national armies, which were not dependent on the nobility. The armies could receive consistent training so that all units could work well together. In many cases, the newly emerging nation-states dominated the older forms of political organization.

The Importance of Napoleon

Napoleon Bonaparte was a key figure in the development of the nation-state. Amid the chaos of the French Revolution in the late eighteenth century, most remaining medieval and feudal laws were overturned and a truly national law code was established.

Similarly, a national military was created. Although not the only reason, France's status as a nation-state was a key factor in its ability to dominate feudal neighbors in Italy and Germany. Napoleon's military victories also paved the way for the emergence of nation-states in the rest of Europe: In many places, the people rallied together as a nation in order to defeat Napoleon.

Constitutions

Every country has a constitution of some sort that outlines the government's structure. A constitution is simply the set of rules that govern how power is distributed and exercised. In other words, these rules structure the government of a state. Without such a set of rules, the state could not function and anarchy would reign. Although no constitution can cover every possible question or issue, all states need to spell out at least the fundamental matters of the distribution and use of power.

Written and Unwritten Constitutions

Some constitutions – such as that of the United States or the Basic Law of Germany – are codified into written documents. In other states, such as the United Kingdom, the constitution consists of many documents, laws, court rulings, and traditional practices

that have never been compiled into a single document. But in every case, custom, history, and tradition play an important role.

Constitutional Design

Strong constitutions share three characteristics, or principles, of constitution design:

Attentive to tradition: People prefer rules that resemble past rules. They are unlikely to follow a new set of rules if it differs widely from what they are used to doing. This principle holds particularly true for customs that have existed for a long time.

Open to change: A constitution should be amendable. Although it should not be too easy to change, making a constitution too rigid may straitjacket future leaders, who may deal with dramatically different circumstances.

A harness to personal ambition: In a good government, the leaders have a strong incentive to prioritize the country over personal ambition. A good, strong constitution creates a situation in which the leaders' ambition leads them to work for the public good, not for personal gain. Without such incentives, rulers, elected or otherwise, may very well ignore the public good.

Although these three principles of constitutional design help ensure solid governmental structures, ultimately they are merely guidelines. Some successful constitutions do not include them, and a number of states have succeeded in imposing governments that differ greatly from tradition. Unfortunately, any radical departures from tradition or history usually require violence.

Some constitutions are short documents. The U.S. Constitution, for example, covers only a few pages. Others are lengthy. The Basic Law of Germany, for example, is roughly five times as long as the U.S. Constitution. As a general rule, older constitutions are shorter than newer constitutions.

Systems of Government

A system of government distributes power among different parts and levels of the state. Political scientists study the uses of power, including how power is distributed within a state. The amount of power held by the central government determines the system of government a state has. There are three main systems of government used today: unitary systems, federal systems, and confederate systems.

Unitary Systems

A unitary system has the highest degree of centralization. In a unitary state, the central government holds all the power. Lower-level governments, if they exist at all, do nothing

but implement the policies of the national government. In a purely unitary state, the same set of laws applies throughout the nation, without variation.

Unitary states create national policy, which is then applied uniformly. This uniformity sometimes serves as an advantage because people and businesses know exactly what to expect from the laws, regardless of geographical location. At the same time, to maintain its uniformity, a unitary government must overlook local differences that might call for different rules or policies. In France, for example, the central government makes virtually all of the decisions. China, Japan, and the United Kingdom are other examples.

Federal Systems

A federal system has a mix of national and state or local governments. The federal government usually trumps local governments in matters of defense and foreign policy, but local governments have a great deal of say over most other policy areas. Sometimes local governments administer national policies, which means that, in practice, the "national" policy varies a great deal from place to place.

Often, the boundary between national and local power is blurred. Federal systems have the opposite strengths and weaknesses of unitary systems: They excel at factoring in local circumstances but often fail to have a coherent national policy. The United States, Germany, and Canada operate under federal systems. These states have a mix of national and state governments that share power and policymaking responsibilities.

Confederate Systems

A confederate system sits at the other extreme in terms of centralization. A confederacy is a loose relationship among a number of smaller political units. The vast majority of political power rests with the local governments; the central federal government has very little power. Local governments have a great deal of freedom to act as they wish, but this freedom often leads to conflicts between states and the federal government. In some cases, a confederacy is little more than an alliance between independent states. Today, Belgium is basically a confederacy between two largely independent states, Flanders in the north and Wallonia in the south.

The Future of Nation-States

Although the nation-state has been the predominant unit of political organization for most of the last few centuries, its future is uncertain. Two trends point to the nation-state as receding in importance, but these trends sometimes contradict each other. Still, globalization and devolution continue to occur at a rapid rate throughout the twenty-first-century world, and both will affect the future of nation-states.

Globalization

The first major trend is globalization. Over the last few decades, national boundaries have broken down in a variety of ways, including economically. In today's truly global economy, money and goods travel across borders in huge quantities and at great speed. Many corporations build parts in a variety of countries, then assemble them in yet another country. Most goods are no longer "made in America," for example, because much of the manufacturing often happens in other places, whereas final assembly occurs in the United States. The rapid growth of International investing has further globalized the economy. Globalization often leads to transnationalism, so should this globalizing trend continue, the nation-state might give way to the transnational government.

Transnationalism has occurred at the political level. International organizations, such as the United Nations and the World Trade Organization, play an ever-increasing role on the political stage, and nations join them for such benefits as military protection and economic security. In the case of the European Union, national boundaries have very little meaning. All citizens can travel, live, and work freely throughout the European Union, and all internal tariffs and trade restrictions have been abolished. Some residents see themselves as citizens of a new European Union nation, not of their smaller countries. Transnational governments and groups literally transcend geographical and political boundaries.

Devolution

The second trend that marks the recession of nation-states concerns the increase in political power being given to local governments, sometimes to the point of autonomy. This trend is sometimes called devolution because states are said to devolve power back to local governments. In the United Kingdom, for example, Scotland has been granted a great deal of autonomy, as has Catalonia in Spain. Should this trend continue, local governments would replace national or central governments.

Accompanying devolution has been subnationalism – an increased identification with and interest in subnational groups. The prefix sub means "below" or "beneath," so the term subnational indicates a smaller division of a larger national group. Many people are working to preserve the language, culture, and history of subnational groups. Some in France, for example, are learning to speak Breton, a language that had largely disappeared. In a number of countries, local dialects that were suppressed under dictatorial governments have reemerged after a transition to a more democratic government.

Predicting the Future

The future of nation-states is unclear. As trends, globalization and devolution contradict each other, so it seems unlikely that both will continue in significant ways. On the one hand, if globalization continues, then transnational governments or allegiances such as the European Union may eventually replace traditional nation-states. On the other hand, if devolution continues, powerful regional governments and subnational groups may come to dominate the political landscape. Then again, the nation-state has proven itself to be very durable throughout history. As the cliché goes, time will tell what the future holds for the nation-state.

Political Culture and Public Opinion

Different nations have different languages, faiths, ethnicities, traditions, histories, and worldviews. As a result, the government created by each nation is distinct and unique. Countries may create similar governments – there are many democracies in the world, for example – but no two political systems are exactly identical. Moreover, the ways people interact with their government differ from country to country as well, so no two political cultures are truly similar, nor is public opinion the same from country to country.

What Is Political Culture?

A political culture is a set of attitudes and practices held by a people that shapes their political behavior. It includes moral judgments, political myths, beliefs, and ideas about what makes for a good society. A political culture is a reflection of a government, but it also incorporates elements of history and tradition that may predate the current regime.

Political cultures matter because they shape a population's political perceptions and actions. Governments can help shape political culture and public opinion through education, public events, and commemoration of the past. Political cultures vary greatly from state to state and sometimes even within a state. The United States and Great Britain, for example, are both democracies, but each has a distinct political culture. Political culture changes over time, but these changes often happen slowly. People frequently become set in their ways and refuse to alter their attitudes on significant issues. Sometimes it can take generations for major shifts to occur in a nation's political culture.

Citizenship

Political culture is connected to notions of citizenship because political culture frequently includes an idea of what makes people good citizens. A citizen is a legal member of a political community, with certain rights and obligations. Because each country has its own requirements for citizenship and attendant rights, the definition of "citizen" varies

around the world. Not surprisingly, different countries have different criteria for citizenship. France automatically bestows citizenship on anyone born in French territory via jus soli (Latin for "right by territory"). Germany grants citizenship via jus sanguines (Latin for "right by blood") to people who have a German parent. Israel's Law of Return, meanwhile, allows any Jew to move permanently to Israel and become a citizen. The United States grants citizenship rights both to people who are born in American territory and to people who have an American parent.

Aristotle and Citizenship

The Greek philosopher Aristotle was probably the first person to puzzle over what makes someone a citizen. He reasoned that living in a particular place does not automatically make a person a citizen because, in his day (as in ours) resident aliens and immigrants often lived in a country without becoming citizens. In the end, Aristotle defined a citizen as one who shares in the offices and power of a regime (even if only in a small way). So, a tyranny has one citizen, whereas a democracy has many citizens.

Characteristics of Good Citizens

A good citizen lives up to the ideals of the regime and embodies much of what a particular political culture considers important. Someone who lives an exemplary life but who does not work to help the community will probably be viewed as a good person but not as a good citizen. Instead, people expect good citizens to help others and to make the community a better place through active participation in public life. A good citizen is often expected to vote in elections, to obey all laws, to be informed about political issues, to volunteer to help less fortunate people, and to help the community when needed.

Political Socialization

People acquire political culture through a process known as political socialization. Although the bulk of political socialization occurs during childhood, adults continue to be socialized. Political socialization occurs in many ways:

Family: Young children usually spend far more time with their families than with anyone else and thus tend to acquire the family's habits, beliefs, behaviors, and attitudes. For this reason, family tends to be the most important source of political socialization. Families mostly impart political culture unintentionally by acting as examples for the children. Very often, people end up with political beliefs similar to those of their parents.

School: Most children learn about their country at school, usually through a curriculum known as civic education. This curriculum trains young people to be good citizens, often via history, government, and social studies. Although these lessons are usually basic, many of the key ideas and values of a society are imparted through school.

Peers: At all ages, friends and acquaintances will influence one's beliefs.

Religion: Different religious traditions have very different values, and one's faith often significantly influences one's political views.

Social and economic class: The social class to which one belongs shapes one's views.

Minority status: Members of a minority group sometimes feel like outsiders, and this feeling of isolation and alienation affects their attitudes toward society and government. This is particularly true when the minority group is treated either better or worse than others in society.

Media: The power of media is increasing with the spread of 24-hour cable news networks, talk radio, the Internet, and the seeming omnipresence of personal audio and video devices, so the influence of the media on political socialization is no longer confined to the young.

Key events: A major political event can shape an entire generation's attitudes toward its nation and government. World War II, for example, defined the attitudes of many people around the world.

The Role of Government

The government plays a role in political socialization in a variety of ways. It determines the policies and curricula, including what books students may read, for public schools. The government also regulates the media, which affects what we see and hear. In authoritarian and totalitarian regimes, the government often takes active measures to inculcate loyalty, especially in younger people. The Nazis, for example, created the Hitler Youth, which instilled allegiance to Adolf Hitler in young people in Germany during the Third Reich. Similar programs existed in the former Soviet Union.

Plato writes about the creation of a good aristocratic regime. But most of the work describes the educational system and discusses what will be taught to the young. This emphasis shows Plato's understanding of the importance of socialization: He argued that raising a generation indoctrinated with the values of the regime was essential to the regime's survival. In fact, Plato even claims that, in order for the good republic to succeed, the city founders must expel everyone over the age of ten because their attitudes have already been shaped and cannot be changed.

Social Capital

Social capital is the mutual trust and cooperation that arises from the web of connections among people involved in organizations and community groups. For the most part, private activities, not government ones, foster social capital. The term civil society is sometimes used as a synonym for the relationships that create social capital. In a civil society, social capital flows easily between people.

- Creating Social Capital
- Activities that can build social capital include the following:
- Participating in the local parent-teacher association

- Joining a civic organization, such as the Elks or the Kiwanis Club
- Volunteering in the neighborhood or around the community
- Forming a neighborhood watch
- Donating old clothes or goods
- Contributing to a food bank
- Joining a religious institution or synagogue group
- Belonging to a bridge team, craft club, or other type of common-interest group

Bowling Alone

Robert Putnam's successful book Bowling Alone: The Collapse and Revival of American Community (2001) put the issue of social capital into the context of popular culture. Putnam noticed that bowling leagues had declined significantly in the last few decades of the twentieth century. People still bowled, but as individuals and informal groups, not as part of a league.

This change prompted Putnam to worry that the decline of membership in community groups was eroding America's social capital. The book prompted a great deal of debate and some controversy over Putnam's conclusions that America's social capital was rapidly declining.

Social Capital and Democracy

In a democratic society, people must be willing to trust others and tolerate those with whom they disagree. Without these attitudes, democracy can fail, because democracy is ultimately a cooperative form of government. Many political scientists regard social capital as essential to democracy because social capital forges bonds between members of the community. These bonds enable people to readily join together. Also, working with others helps build a sense of community and trust among citizens, which, in turn, creates more social capital.

Social Capital and Democratization

One of the most difficult tasks for any democratizing country is the building of civil society. Authoritarian regimes discourage civil society because civil society can form the basis of resistance to the government. These governments instill fear and mistrust within their citizens, often turning groups and individuals against one another. New democracies sometimes have trouble building community trust and tolerance because their citizens are not used to working together in civil society. For this reason, nations that seek to help other nations democratize must focus much energy on creating social capital and building civil societies.

Political Participation

Political participation is any activity that shapes, affects, or involves the political sphere. Political participation ranges from voting to attending a rally to committing an act of terrorism to sending a letter to a representative. Broadly speaking, there are three types of participation:

- Unconventional participation: Activities that are legal but often considered inappropriate. Young people, students, and those with grave concerns about a regime's policies are most likely to engage in unconventional participation. Unconventional political participation includes signing petitions, supporting boycotts, and staging demonstrations and protests.
- Conventional participation: Activities that we expect of good citizens. For most people, participation occurs every few years at election time. People strongly committed to politics are more likely to participate on a regular basis. Conventional political participation includes voting, volunteering for a political campaign, making a campaign donation, belonging to activist groups, and serving in public office.
- Illegal participation: activities that break the law. Most of the time, people resort to illegal participation only when legal means have failed to create significant political change. Illegal political participation includes political assassination, terrorism, and sabotaging an opponent's campaign through theft or vandalism.

Why People Participate

Most democratic citizens feel that some level of political participation, particularly conventional participation, is admirable and acceptable. But political participation can be hard: One must find time, and perhaps money, in order to participate. So why do people do it? People participate in politics out of a sense of the following:

- Idealism: Some participate because they believe strongly in a particular idea.
- Responsibility: For many, participation is a responsibility of democratic citizenship.
- Self-interest: A person might work to promote issues and causes that personally profit that person.
- Enjoyment: Some simply enjoy public activity, either because of the activity itself or because of the friends they make while politically engaged.

The Paradox of Participation

Rational choice theorists have argued that participation, particularly voting, is irrational. In a large country, the probability that one's vote will decide the outcome of an election

is microscopic. Because participation has costs (time to vote, effort to learn about the candidates and issues), the costs of voting outweigh the benefits. In other words, voting does not make sense for people as an activity.

Another way to think about this issue is to consider the person who votes because he or she desires to have an impact on the government. If he or she votes out of a sense that the one vote will make a difference, then this person will be sorely disappointed. The truth is that one vote does not make a difference. At the same time, however, if everyone who votes ceased to believe in the power of voting to effect change, then no one would turn out for elections and the democratic process would stop functioning. Political scientists call this phenomenon the paradox of participation.

Public Opinion

Public opinion consists of the views held by the population of a state that influence those in power. In a democratic state, politicians must listen to public opinion if they wish to keep their jobs. Dissatisfied constituents can vote out those who ignore their views. But regimes with other types of governments also need to pay attention to public opinion. If the public overwhelmingly opposes the government, the regime could be in serious danger of revolution or collapse.

Assessing Public Opinion

We learn about public opinion through polling, which asks people their views and then compiles the results. Politicians and pundits in many countries rely on public opinion polls, and the media frequently reports on polls. Sampling a subset of the population allows pollsters, or the people who create and take the polls, to get a sense of overarching concerns and interests within a large population. Rather than polling every citizen, an expensive and time-consuming process, polls use samples. Pollsters hope that the opinions of the sample accurately reflect the population as a whole. Just as one does not need to taste every bite of stew to know that it needs more salt, one need not poll every person to learn public opinion.

Good and Bad Samples

To make sure that their poll results are accurate, pollsters seek good samples. The most obvious way to get a good sample is to include lots of people. But including more people does not guarantee that the poll will be accurate. Instead, a sample must be representative —that is, the sample must have the same basic characteristics as the population. If the population has a 15 percent poverty rate, for example, the sample should have a roughly equal portion of poor people. Pollsters have a number of techniques to ensure a representative sample, and they rely on statistical methods to measure the probability that a poll is accurate.

Pollsters rely heavily on probability and randomness to increase the chance of getting a good sample. In a probability sample, each person in the population has a known chance of being chosen as part of the sample. When pollsters assign each person an equal chance of being selected, they are using random selection. Sampling error results from bad samples. A poll that falls prey to sampling error will inaccurately measure public opinion. A common source of sampling error is a skewed sample, one that does not match the population. Some popular types of polling—asking people as they walk down the street, for example, or online polls—produce very skewed samples and are therefore unreliable.

The Literary Digest Poll

One of the most notorious examples of a bad sample is the 1936 US presidential election poll conducted by the Literary Digest, a notable magazine of the era. The sample numbered more than a million people, but it ended up very wrong: The poll predicted that Alfred Landon would defeat Franklin Roosevelt, but Roosevelt won easily. The poll was wrong because its sample was skewed. Pollsters contacted people in phone books, as well as people with registered automobiles. But during the Great Depression, rich people were the only ones with phones and cars. Thus, the poll contained responses from far too many rich people and not nearly enough from other social classes.

Influences on Public Opinion

Many factors affect public opinion:

- Politicians: Many officials actively campaign to generate support among the public. They give speeches and interviews, stage rallies, and listen to constituents.

- Media: The news media covers all major political events extensively. Indeed, sometimes it seems that the media creates important political events by choosing to cover them so much. Because the vast majority of people get their political information from the media, it has a huge impact.

- Socioeconomic status: Most political and economic events affect people unevenly, so one's social and economic status naturally affects one's views. Wealthy people are more likely than poor people to support a budget that cuts taxes on capital gains, for example, because they would benefit more from the tax cut.

- Major events: Any significant event—a war, an economic downturn, or a diplomatic success, for example—can influence people's views. In the United States, for example, whenever a foreign crisis arises, support for the president shoots up dramatically. Political scientists call this increase in popularity the rally 'round the flag effect. The effect might not always last a long time, but in the short run, the president's popularity goes up.

- Opinion leaders: Political scientists call a person whose views on an issue can affect the views of others an opinion leader. Often, opinion leaders are prominent members of the community and pay more attention to politics than most people. The Internet, for example, has created a new

type of opinion leader called a blogger (short for web logger). Many people read the same political blogs every day and are strongly influenced by what they read. Politicians have begun to court bloggers, going so far as to invite them to conventions and to grant them interviews in an attempt to win the opinion leaders over to their side.

International Relations

Governments not only interact with the people they rule but also with other governments – to trade, to share ideas, to work together to solve global problems, and to resolve disputes. Political scientists have been analyzing International relations – relations between states – for centuries, but never more so than during the twentieth century, as scholars tried to explain the reasons for and explore the aftermath of World Wars I and II and the Cold War that followed.

History of the International System

States engage with one another in an environment known as the International system. All states are considered to be sovereign, and some states are more powerful than others. The system has a number of informal rules about how things should be done, but these rules are not binding. International relations have existed as long as states themselves. But the modern International system under which we live today is only a few centuries old. Significant events have marked the milestones in the development of the International system.

The Peace of Westphalia (1648)

In 1648, the Peace of Westphalia, which ended the Thirty Years' War between Catholic states and Protestant states in western and central Europe, established our modern International system. It declared that the sovereign leader of each nation-state could do as she or he wished within its borders and established the state as the main actor in global politics. From that point forward, the International system has consisted primarily of relations among nation-states.

Shifting Balances of Power (1600–1800)

In the seventeenth and eighteenth centuries, the nation-state emerged as the dominant political unit of the International system. A series of powerful states dominated Europe, with the great powers rising and falling. Weaker states often banded together to prevent the dominant power from becoming too strong, a practice known as preserving the balance of power. Frequent wars and economic competition marked this era. Some nations – notably France and England – were powerful through most of the modern age, but some – such as Spain and the Ottoman Empire – shrank in power over time.

Emergence of Nationalism (1800–1945)

In the nineteenth century nationalism emerged as a strong force, allowing nation-states to grow even more powerful. Italy and Germany became unified countries, which altered the balance of military and economic power in Europe. The problems raised by the unification of Germany contributed to World War I (1914–1918). In the aftermath of the war, the International system changed dramatically again. The major powers of Europe had suffered greatly, whereas the United States began to come out of its isolation and transform into a global power. At the same time, the end of the Ottoman and Austro-Hungarian empires created a series of new nations, and the rise of communism in Russia presented problems for other nations. These factors contributed to the Treaty of Versailles, the rise of Nazism and communism, and World War II (1939–1945).

New World Orders (after 1945)

The end of World War II marked a decisive shift in the global system. After the war, only two great world powers remained: the United States and the Soviet Union. Although some other important states existed, almost all states were understood within the context of their relations with the two superpowers. This global system was called bipolar because the system centered on two great powers.

Since the end of the Cold War and the fall of the Soviet Union, the nature of the world has changed again. Only one superpower remains, leading some scholars to label the new International system unipolar. Others point to the increasing economic power of some European and Asian states and label the new system multipolar. To some extent, both terms are accurate. The United States has the world's most powerful military, which supports the unipolar view, but the U.S. economy is not as powerful, relative to the rest of the world, lending credence to the multipolar view.

Theories of International Relations

A theory of International relations is a set of ideas that explains how the International system works. Unlike an ideology, a theory of International relations is (at least in principle) backed up with concrete evidence. Most theories of International relations are based on the idea that states always act in accordance with their national interest, or the interests of that particular state. State interests often include self-preservation, military security, economic prosperity, and influence over other states. Sometimes two or more states have the same national interest. For example, two states might both want to foster peace and economic trade. And states with diametrically opposing national interests might try to resolve their differences through negotiation or even war. The two major theories of International relations are realism and liberalism.

Realism

Realism defines the world as a harsh and dangerous place. The only certainty in the world is power. States work only to increase their own power relative to that of other states. A powerful state will always be able to outdo – and outlast – weaker competitors. The most important and reliable form of power is military power.

Realism also claims the following:

- A state's primary interest is self-preservation. Therefore, the state must seek power and must always protect itself.
- There is no overarching power that can enforce global rules or punish bad behavior. Also, International organizations and law have no power or force; they exist only as long as states accept them.
- Moral behavior is very risky because it can undermine a state's ability to protect itself.
- The International system itself drives states to use military force and to war. Leaders may be moral, but they must not let moral concerns guide foreign policy.

Politicians have practiced realism as long as states have existed. Most scholars and politicians during the Cold War (like *Hans Morgenthau*, *Kenneth Waltz*, *John Mearsheimer*, and *Henry Kissinger*) viewed International relations through a realist lens. Neither the United States nor the Soviet Union trusted the other, and each sought allies to protect itself and increase its political and military influence abroad.

Liberalism

Liberalism emphasizes that the broad ties among states have both made it difficult to define national interest and decreased the usefulness of military power. Liberalism developed in the 1970s as some scholars began arguing that realism was outdated. Increasing globalization, the rapid rise in communications technology, and the increase in International trade meant that states could no longer rely on simple power politics to decide matters. Liberal approaches to International relations are also called theories of complex interdependence. Liberalism claims the following:

- The world is a harsh and dangerous place, but the consequences of using military power often outweigh the benefits. International cooperation is therefore in the interest of every state.
- Military power is not the only form of power. Economic and social power matter a great deal too. Exercising economic power has proven more effective than exercising military power.
- Different states often have different primary interests.
- International rules and organizations can help foster cooperation, trust, and prosperity.

Relations among the major Western powers fit a model of complex interdependence very well. The United States has significant disagreements with its European and Asian allies over trade and policy, but it is hard to imagine a circumstance in which the United States would use military power against any of these allies. Instead, the United States relies on economic and diplomatic incentives to achieve its policy aims. Important liberal thinkers in International relations include *Adam Smith* and *Immanuel Kant*.

Idealism is a specific school of liberalism that stresses the need for states to pursue moral goals and to act ethically in the International arena. Idealists believe that behavior considered immoral on an interpersonal level is also immoral in foreign policy. Therefore, idealists argue that dishonesty, trickery, and violence should be shunned. In the United States, idealism has usually been associated with the Democratic Party since World War I.

Constructivism

In addition to realism and liberalism, a new theoretic approach appeared: Constructivism takes beliefs and values as crucial elements in determining a reality that is socially constructed – as supposed to liberalism and realism which take such things for granted. Thus, social practice, discourse and interaction among the participants of the International realm (both state and non-state actors) are the fundamental drivers of this ongoing and maieutic process in which the emerging norms and values shape their own interests and identities. Without offering any predictions, but focusing on an attempt to explain the reasons for political change, the constructivist perspective looks at power not as an irrelevancy but as a subjective product of ideas and identities. The definition of "power" – according to the constructivist interpretative framework – is influenced by the cultural and the historical context in which it is analyzed. Similarly, constructivists argue that the realist conception of anarchy does not adequately explain why conflict occurs between states. The real issue, in fact, "anarchy is what states make of it".

International Law

In order to make the global system less chaotic and unpredictable, states often make agreements with one another to modify their behavior. International agreements are treaties signed by a number of states that establish global rules of conduct. Some agreements focus on single issues, whereas others cover many areas. Theoretically, International agreements benefit the states that sign them. States that break these rules—sometimes called rogue states—are usually treated with wariness by the rest of the world. International law is the collection of rules and regulations that have evolved over the past few centuries.

These rules define the rights and obligations of states. Sometimes treaties codify and formalize International law, but just as often, International law arises from custom and habit. The International Court of Justice, in the Netherlands, is the judicial body of the United Nations and is responsible for resolving disputes among states. A key dispute among political scientists concerns the effectiveness of International law. Realists argue that because there is no International police force to enforce International law, the law has no real power. States only obey International law when it is in their interest to do so. Liberalists, however, dispute this idea, contending that there are real consequences to breaking International law—such as sanctions and even military occupation—and that International organizations have a measurable impact on global relations.

International treaties serve as an important part of International law. States sign treaties to end wars, protect their interests, and make International law. Significant International treaties include the United Nations Charter (1945), the General Agreement on Tariffs and Trade (1947), the North Atlantic Treaty (1949), the Warsaw Pact (1955, the Anti-Ballistic Missile Treaty (1972) and the Kyoto Protocol (2005).

International Organizations

Some International agreements create International organizations, which are institutions that set rules for nations and provide venues for diplomacy. There are different types of International organizations: International governmental organizations (IGOs) and International nongovernmental organizations (NGOs). In recent years, multinational corporations (MNCs) have also had a significant impact on the International system. IGOs and NGOs exist for a variety of reasons, such as controlling the proliferation of conventional and nuclear weapons, supervising trade, maintaining military alliances, ending world hunger, and fostering the spread of democracy and peace.

- International Governmental Organizations. IGOs form when governments make an agreement or band together. Only governments belong to IGOs. The United Nations (UN), the North Atlantic Treaty Organization (NATO), the World Trade Organization (WTO), and the European Union (EU) are all examples of IGOs.

- Nongovernmental Organizations. Unlike governmental organizations, NGOs are made up of individuals, not businesses or governments. NGOs serve a variety of functions and represent numerous interests. Not all NGOs have a positive impact on global politics. Although Amnesty International has helped defend human rights and Greenpeace has protected the environment, for example, the International terrorist organization Al-Qayada has killed civilians in an effort to cripple economies and topple governments. Since the end of World War II, nongovernmental actors have become more important in the global arena.

- Multinational Corporations. MNCs, or businesses that operate in more than one country, are another type of nongovernmental actor in the International system. Although MNCs are nongovernmental actors, they are not NGOs. Their primary aim is to make money. In the twenty-first century, MNCs dominate the global economy. Some MNCs—such as Coca-Cola, Microsoft, and IBM, to name a few—are worth more than many small countries, which means that they have the power to be major players in International politics.

Conflicts and Peace

Although numerous International agreements and institutions exist to facilitate smooth relations among the nearly 200 countries in the world, International politics can still be extremely violent. Even though people have fought one another for millennia, political scientists still do not know exactly what causes people and states to go to war, start revolutions, or commit acts of terrorism. Identifying both immediate and long-term causes and consequences of political violence, as well as thinking about the impact of this violence on the International system, has become an important part of political science.

War

War has been far too common in human history and thus is the central problem of International relations. Many political scientists and foreign policymakers view war as the continuation of politics: When diplomacy fails, some states decide to use force. Others see war as the result of a breakdown of the modern International system because so many of the rules of International institutions were designed to reduce conflict among states.

Causes of War

Political scientists have long debated the causes of war. These scholars have come up with the following list:

- Human nature: Humans are naturally violent and aggressive, making war inevitable.
- Regime types: Some regimes are more prone to waging war than others. Overall, it appears that democracies are less likely to fight other democracies, a phenomenon scholars refer to as the "democratic peace". Democracies are, however, just as likely as other types of regimes to fight nondemocracies.
- Ideology: Some political beliefs favor war more than others. Some scholars blame fascism, for example, for World War II.
- Religion: Religious belief has driven many states to war, either to spread the faith or to eradicate heretics. During the early modern era, for example, nearly every European country experienced numerous wars of religion between Catholics and Protestants.
- The global system: Because the global system is anarchic, states must engage in war to protect themselves.
- Economics and resources: Disputes over resources often lead to war.

Types of War

Although all wars are violent, not all wars are the same. In fact, there are many different types of wars, which can be classified according to which people actually fight, the intensity of the conflict, and the extent of combatants' use of violence, among other factors. Scholars generally describe five types of war: A war can often be a limited war, a guerrilla war, and a civil war all at the same time. The Soviet invasion of Afghanistan in 1979 is a great example. The United States sent trainers, money, and weapons to Afghan rebels to fight against the invaders, making it a low-intensity, limited conflict from the U.S. point of view. The Afghan resistance mostly relied on guerrilla tactics. And the war split Afghanistan, so it was also a civil war.

Intervention

Intervention is a fairly common way for a third-party state to get involved in a civil war or a war between two or more other states. A state intervenes when it sends troops, arms, money, or goods to help another state that is already at war. During the Cold War, the term intervention was used to describe one of the superpowers becoming involved in a smaller country's war (often a developing country). But states sometimes intervene in order to bring peace. This type of intervention occurs when a country sends military forces into another state to act as peacekeepers or to block other forces from attacking. Sometimes these interventions are organized or conducted by the United Nations or another International organization. The NATO, for example, sent troops into the former Yugoslavia during the 1990s on a number of occasions to protect people from war.

In 1864, several states created the Geneva Conventions, an International agreement that regulated acceptable behavior during armed conflicts. Since then, the Geneva Conventions have been amended a few times as the nature of war has changed. The agreements prohibit torture, rape, genocide, mutilation, slavery, and other crimes against humanity. The conventions also state that prisoners of war must be treated humanely and that civilians may not be used as hostages.

Revolution

A revolution is any fundamental change in the social or political aspects of a state. Most revolutions are political, occurring when the citizens of a country try to oust the existing government and replace it with a new one. Political revolutions tend to be tumultuous, violent events. There is no clear-cut explanation as to why people revolt, but scholars believe that some or all of the following factors lead to revolution:

- Injustice: Aristotle argued that the cause of revolution was the perception of injustice. If the underclasses feel that they are being treated unjustly, they will revolt.

- Relative deprivation: Some scholars have argued that revolutions occur after a period of good times has ended. The citizens begin to expect a

higher quality of life and feel cheated when they perceive a stagnation or decline in the quality of their lives.

- State of the government: Revolutions are more likely to happen in countries with corrupt governments. If citizens believe in the efficacy of their government, then revolution is unlikely. But if a regime appears to exist solely to enrich the rulers, then revolution is more likely.

- The military: As the strongest power in most states, the military frequently determines whether a revolution will occur and be successful. If the military backs the government, then revolution is unlikely. A turning point in many revolutions occurs when soldiers decide to stop obeying the government and decide to fight alongside the revolutionaries.

Revolutions in History

Although people have always rebelled against their rulers and governments, the modern area witnessed many significant revolutions. Since the sixteenth century, most revolutions have been attempts to overthrow traditional regimes in the name of liberty. In the twentieth century alone, there were important revolutions in Russia, China, Egypt, and parts of communist Eastern Europe, as well as countless others in smaller countries. Revolutions, and countering revolutions, were a driving force of foreign policy in the twentieth century. However, three revolutions in particular have served as models for most of the world's revolutions in the nineteenth and twentieth centuries:

- American Revolution (1776–1783): Leaders of the American Revolution overthrew British colonial rule to establish an independent republic. These colonial leaders considered the revolution to be a necessary evil and restricted the use of violence. Although the revolution affected the lives of most Americans, there was little social upheaval.

- French Revolution (1788–1799): The French Revolution began much as the American Revolution had but quickly turned violent. Tens of thousands of French citizens were executed during Maximilian Robespierre's so-called Reign of Terror. Order was restored only when Napoleon Bonaparte seized control of the government.

- Russian Revolution (1917): Russian revolutionaries sought both the removal of the monarchy and the complete restructuring of civil society in accordance with Vladimir Lenin's version of communism. The second phase of the Russian Revolution served as the model for dozens of other communist revolutions.

The Industrial Revolution

Not all revolutions are political. A social revolution is a revolution that transforms society or the economy without drastically altering the existing political system. The Industrial Revolution of the late eighteenth and early nineteenth centuries had a major impact on every country in the world. Beginning around 1780 in England, industry started to replace agriculture, and machinery started to replace manual labor. By the mid-nineteenth century, new forms of production and transportation—including the invention of the steam engine, mechanical typesetting, and movies—had fundamentally altered the modern world. Consequently, the lives of Europeans changed drastically within just a couple of decades.

Terrorism

Terrorism is the use of violence (often against civilian targets) to instill fear, generate publicity, and sometimes destabilize governments. Generally speaking, small groups fighting against powerful states practice terrorism, but governments also have the ability to practice terrorism. Throughout history, terrorism has taken many forms. Just in the last two centuries, for example, terrorism has been used by Russian nihilists, nationalists in Israel, Nazi forces, left-wing guerrillas in Europe, discontented radicals in the United States, Latin American death squads, and Islamic fundamentalists. Terrorism is not tied to any one particular ideology or group.

Types of Terrorism

Scholars generally classify terrorism into two types: terrorism practiced by governments and terrorism practiced by groups not affiliated with a government. Ideological terrorism aims to promote a particular belief system through acts of violence; it may be practiced by both governments and groups.

- Terrorism Practiced by Government: A government commits acts of terror against its own citizens (state terrorism) or a government supplies and trains terrorists to make attacks in other countries. (International terrorism; also known as state-sponsored terrorism).

- Terrorism Practiced by Groups: Any terrorist act not committed by a government (antistate terrorism) or a group with no ties to another country or government commits terrorist acts within its own country (domestic terrorism)

Some types of terrorism fit into more than one of these categories. Suicide bombings in Israel, for example, are ideological (promoting a Palestinian state and sometimes also promoting Islamic fundamentalism), state-sponsored (a number of Arab governments fund the bombers), and domestic (many are carried out by Arabs living in Israel).
Guerrillas Versus Terrorists

Although guerrillas have been known to practice terrorism, guerrillas are not terrorists. Guerrillas fight against their governments, particularly against the military, in order to provoke a regime change. Terrorists, in contrast, target civilians and members of the military in order to create a social and political crisis of International proportions. Of course, those fighting a guerrilla group might label their opponents terrorists, and some terrorists may see themselves as guerrillas.

The Purpose of Terrorism

Terrorist acts ultimately aim to undermine governments and disrupt societies. Many terrorists are young, frustrated men who feel that they have been treated unjustly. Sometimes terrorists try to destabilize a government directly, via assassinations, kidnappings, and the bombing of government buildings. However, they might also be provoked by any religious cult or book that claims to gift heaven for killing innocents.

Terrorists can also work to undermine governments indirectly by showing people that their leaders are too weak to prevent the attacks and that an active resistance movement exists. Sometimes, terrorists attack in order to provoke a strong response from the government, hoping that the response will alienate more people from the government and foster even more political discord.

Peacebuilding

Peacebuilding is an intervention that is designed to prevent the start or resumption of violent conflict by creating a sustainable peace. Peacebuilding activities address the root causes or potential causes of violence, create a societal expectation for peaceful conflict resolution and stabilize society politically and socioeconomically.The tasks included in peacebuilding vary depending on the situation and the agent of peacebuilding. Successful peacebuilding activities create an environment supportive of self-sustaining, durable peace; reconcile opponents; prevent conflict from restarting; integrate civil society; create rule of law mechanisms; and address underlying structural and societal issues. Post conflict peacebuilding can be divided into three dimensions:

1. **Stabilization -** Activities within the first dimension reinforce state stability post-conflict and discourage former combatants from returning to war (disarmament, demobilization and reintegration, in short: DDR). Taking away weapons and re-integrating former combatants into civilian society are essential parts.
2. **Building State Capacities -** Second dimension activities build state capacity to provide basic public goods and increase state legitimacy. This step includes:

- Rebuilding basic facilities, transportation and communication networks
  – Developing rule of law systems and public administration
  – Building educational and health infrastructure
  – Creating legitimate (democratic, accountable) state institutions
-

3. Sustainable Peace Promotion - Programs in the third dimension build a post-conflict society's ability to manage conflicts peacefully and promote socioeconomic development. Essential elements are:

– Trauma counseling, transitional justice and restoration
– Building bridges between different communities
– Promoting human rights and economic development
– Developing a civil society and private sector that can represent diverse interests peacefully

A mixture of locally and Internationally focused components is key to building a long-term sustainable peace. Although International support is in almost all cases essential and irreplaceable, peacebuilding practices arise from local communities, they are tailored to local context and culture in a way that generalized International peacebuilding approaches are not.

Thank You

Day 03

Essential Management Skills

— Introduction —

To be a great manager, you must have an extensive set of skills – from planning and delegation to communication and motivation. Because the skill set is so wide, it's tempting to build skills in the areas of management that you're already comfortable with. But, for your long-term success, it's wise to analyze your skills in all areas of management – and then to challenge yourself to improve in all of these areas. This course will help you to do so.

What are the main functions of managers?

Management is often expressed as the process of achieving an organization's objectives through guiding development, maintenance, and allocating resources. The four primary functions of managers are planning, organizing, leading, and controlling.

1. Planning

Planning is the process of determining a course of action for future conditions and events with the goal of achieving the company's objectives. Effective planning is necessary for any business or organization that wants to avoid costly mistakes. There are different types of planning:

- Strategic planning involves creating long-range goals and determining the resources required for achieving these goals. Strategic planning is the most far-reaching level of planning and involves plans with time frames from one to five years. Strategic planning includes analyzing the external environment and the organization's readiness to react.
- Tactical planning denotes the implementation of the activities defined by the strategic plans. Generally, tactical planning involves shorter-range plans with time frames of less than one year.
- Operational planning involves the creation of specific methods, standards, and procedures for different functional areas of an organization.
- Contingency planning involves the creation of alternative courses of action for unusual or crisis situations.

2. Organizing

Managers have to figure out how many people are needed to get the jobs done. This management role involves blending human and capital resources in a formal structure as well as determining how the job flow happens. The manager will divide and classify work by determining which specific tasks need to be carried out in order to accomplish a set of objectives.

3. Leading
Managers also have the role of leading or directing employees and plans. The goal of leading is to guide and motivate employees in order to accomplish organizational objectives.

4. Controlling
Managers must monitor what's going on in the company. Controlling allows a manager to measure how closely an organization is adhering to its set goals. Important steps are: setting performance standards, measuring the performance, taking corrective steps if necessary and using information from the process to set future performance standards.

Leadership

People who lead teams in the workplace are commonly seen as leaders and managers. In this chapter, we will address the difference between management and leadership, cover the important concept of "emotional intelligence", and discuss different leadership styles.

Leaders and Managers

Although sometimes used synonymously, leadership and management can be quite different. Leaders may be managers, but not all managers are leaders. So just what are the differences?

Management (structure)		Leadership (flexibility)
A function	↔	A relationship
Planning	↔	Selecting talent
Budgeting	↔	Motivating
Evaluating	↔	Coaching
Facilitating	↔	Building trust

While managers tend to have their eyes on the bottom line, leaders are more often looking toward the horizon, trying to find new opportunities for growth and development. A manager is usually satisfied with the status quo, whereas the leader is often challenging it Leadership often involves reinventing the job; strong leaders create their role in an organization or in the world system. Managers are often responsible for executing the task at hand, not thinking of future goals. Managers are responsible for maintaining, but leaders look to innovate. Managers may involve employees in their activities, but often on a "need to know" basis.

Leaders, in contrast, work to inspire those around them by trying to help others gain personal growth and development from their activities and by turning weaknesses into strengths. Companies that have “leader-managers” throughout the corporate hierarchy are the most successful.

Emotional Intelligence

Daniel Goleman, an American psychologist, was able to analyze what “distinguishes great leaders from good leaders”. It isn’t intelligence quotient (IQ) or technical skills, it’s emotional intelligence (EI): a group of five skills that enable the best leaders to maximize their own and their followers’ performance. The EI skills are:

- Self-awareness: The ability to recognize and understand the own moods, feelings and drives and also the effects on others.
- Self-regulation: The ability to changing the own moods. It means learning to cheer oneself up and handling anger effectively.
- Motivation: A passion to work for reasons beyond money or status. Pursuing goals with energy and persistence. Having optimism even in the face of failure.
- Empathy: The ability to understand the social makeup of other people. Treating people according to their emotional reactions.
- Social Skills: The proficiency in managing and sustaining relationships and building networks.

Understanding emotional intelligence is especially important in light of changes in organizational structures.

Leadership Styles

Individual managers have their own styles of managing, and within organizations there is often a predominant style of leadership. The predominant leadership styles – autocratic, democratic, and laissez-faire – have many variations. We can compare and contrast the effectiveness of each of these styles as it affects employee performance.

- Autocratic Leadership

  This style of leadership is directive and controlling. The leader will make all decisions without consulting employees. The autocratic style of leadership limits employee freedom of expression and participation in the decision-making process. It will not serve to create trust between managers and subordinates. Further, creative minds cannot flourish under autocratic leadership. Autocratic leadership may best be used when companies are managing less experienced employees. But managers should not use the autocratic leadership style in operations where employees expect to voice their opinions.

- Laissez-Faire Leadership

This style of leadership makes employees responsible for most of the decisions that are made. This form requires extensive communication. Laissez-faire leadership may best be used when employees are educated, knowledgeable, and self-motivated. Employees must have the drive and ambition to achieve goals on their own for this style to be most effective. Laissez-faire leadership is not a good idea in situations where employees feel insecure.

- Democratic Leadership

This style of leadership is centered on employee participation and involves decision making by consensus. The leader will involve employees in the decision-making process and they will be encouraged to give input and delegate assignments. Democratic leadership often leads to empowerment of employees because it gives them a sense of responsibility for the decisions made by management. Democratic leadership may best be used when working with highly skilled employees. It is most useful for implementing organizational changes and when the leader requires input from knowledgeable employees. One of the down-sides of democratic leadership is that it may lead to endless meetings.

As with many categories that describe business concepts, an organization and its leadership may apply any or all of these leadership styles. For instance, a company may utilize autocratic leadership style with the lower levels but employ a democratic leadership style with its professional staff in the upper levels. Two additional styles of leadership worth exploring are transformational and transactional. Both have strong ethical components and philosophical underpinnings.

- Transformational Leadership

Leaders who have a clear vision and are able to articulate it effectively to others often characterize this style of leadership. Transformational leaders look beyond themselves in order to work for the greater good of everyone. This type of leader will bring others into the decision-making process and will allow those around them opportunity to learn and grow as individuals. They seek out different perspectives when trying to solve a problem and are able to instill pride into those who work under them. Transformational leaders spend time coaching their employees and learning from them as well.

- Transactional Leadership

This leadership style is characterized by centralized control over employees. The transactional leader will control outcomes and strive for behavioral compliance. Employees under a transactional leader are motivated by the transactional leader’s praise, reward, and promise. They may also be corrected by the leader’s negative feedback, threats, or disciplinary action.

The most effective leadership style is using a combination of styles. Leaders should know when it is best to be autocratic and when to be democratic. They can also be transformational and transactional at the same time; these are not mutually exclusive styles and in fact can complement one another extremely well.

Leadership Trends

In today's competitive environment, leaders are continually searching for new ideas and approaches to improving their understanding of leadership. Here are thumbnail descriptions of current leadership trends.

Coaching

A new trend in effective leadership, coaching, has become extremely popular throughout different organizations. This style of leadership involves guiding employees in their decision-making process. When coaching, management provides employees with ideas, feedback, and consultation, but decisions will ultimately be left in the hands of the employees. Coaching prepares employees for the challenges they will face. The lower an employee's skill and experience level, the more coaching the worker will require. The interactions that an employee has with the manager are the best opportunities they have for enhancing their respective skills. Coaching enables the employees to excel at their tasks. Instilling confidence in employees is extremely important.

Employee Empowerment

As organizations and companies become increasingly borderless, employee empowerment becomes ever more important. This trend in leadership has allowed employees to participate in the decision-making processes. Employee empowerment is also a method for building employee self-esteem and can also improve customer satisfaction. It also ties them more closely to the company goals and will serve to increase their pride in their work and loyalty to the organization.

Global Leadership

As corporations become increasingly International in scope, there is a growing demand for global leaders. Although many of the qualities that make a successful domestic leader will make a successful global leader, the differences lie in the abilities of the leader to take on a global perspective. Global leaders are often entrepreneurial; they will have the ambition to take their ideas and strategies across borders. They will also have to develop cultural understanding; global leaders must be sensitive to the cultures of those working under them, no matter where they are based.

Equitable Treatment

An important trend in leadership is the equitable treatment of employees. This does not mean that each employee will be treated the same; it means that every employee will be given the amount of individual attention they require, and it will involve leadership knowing his or her employees. A good leader will get to know employees well enough to give them what they need in order to best perform. For some employees that may mean more structure; for others it may mean more freedom.

Feedback

Employees thrive on feedback, and by providing feedback and communicating effectively, managers can give employees the tools they need to improve their performance. Providing feedback will not dampen employee morale in most cases, but will allow opportunities for employees to learn from their mistakes and move on to performing their tasks better. Positive reinforcement should be used to encourage employees' positive behavior, but when criticism is necessary, make sure it is constructive.

Management By Objectives

Management By Objectives (MBO) is a management model that aims to improve performance of an organization by clearly defining objectives that are agreed to by both management and employees. The term was first outlined by Peter Drucker in 1954. In the long run, MBO allows the management to change the organization's mindset to become more result oriented.

In MBO, the management focus is on the result, not the activity. The tasks are delegated through negotiations and there is no fixed road-map for the implementation. The nature of its planning process provides opportunities for the employees to find individual ways for accomplishing tasks.
Some of the important advantages are:

- Employee empowerment increases employee motivation, job satisfaction, and commitment.
- Frequent reviews and interactions between superiors and employees enable better communication and coordination.
- The goals are clear.
- Managers can ensure that objectives of the subordinates are linked to the organization's objectives.

However, there are also limitations:

- MBO over-emphasizes the setting of goals over the working of a plan as a driver of outcomes.
- Not all tasks and jobs are suitable for MBO and not all employees are motivated by finding their individual ways to accomplish tasks.
- It under-emphasizes the importance of the environment or context in which the goals are set.

When this approach is not properly set and managed by organizations, some employees might be susceptible to distort results. In this case, managing by objectives would be counterproductive. Therefore, use of MBO must be carefully aligned with the culture of the organization. Objectives must be discussed openly and agreed upon. Management by Objectives (MBO) focuses on the result, not the activity.

Team Development

In today's complex business environment driven by globalization, working in teams is more important ever. But not all teams are identical. Are there different types of teams? How do teams develop? And can we divide the process of team development into specific stages?

Teamwork

Teamwork is defined as a group of people working together to achieve a common goal. Team members are mutually responsible for reaching the goal toward which they are working. Team building is a process meant to improve the performance of the team and involves activities designed to foster communication and encourage cooperation. Additionally, the objective is to avoid potential disputes and problems and to keep the morale of team members high.

Many different industries and organizations use teams to accomplish goals, because people working together can often achieve more than they could individually. How do you know if you need a team to complete a project? Ask yourself the following questions:

- Can I achieve this goal by myself?
- Do I have the resources and time to undertake this project?
- Can a team of people be more effective than I would be in achieving this goal?

If your answers favor the involvement of others, it's time to consider forming a team.

In an increasingly complex environment, organizations are using a team approach to bring a diverse set of skills and perspectives into play. An effective use of teams often draws upon a creative approach of bringing together specialists who combine their efforts and develop intrateam synergies to meet the challenges of their often complex

organizational environment. An example of an industry that often uses teamwork is the construction industry. A successful construction project cannot take place without the formation of teams. A design team will be formed at the beginning of the project and is made up of architects, engineers, and project consultants. The design team alone, however, will not be able to complete the project. They will also need to form a team with the owner of the project and the contractor.

Types of Teams

Throughout different organizations there are different types of teams that are used to accomplish goals. Two of the most common team varieties are problem-solving teams and cross-functional teams.

Problem-Solving Teams: These teams are formed only for a specific time period until a problem is solved. Team members often consist of one level of management.

Let's say Corporation ABC has lost 10 percent of its North American market share. All of ABC's regional salespeople will be called in to form a team to regain that market share. Although their regional focus will remain, they will have to work together to solve the problem of regaining that market share, and when they achieve that goal, they will individually work on maintaining their hold in their market.

Cross-Functional Teams: This type of team is made up of members from different areas of the business and often from a common managerial level.

If a car company wants to bring a new car to market, a team will be formed and its members will consist of managers from different departments such as engineering, design, brand management, product development, market research, marketing and finance.

Stages of Team Development

The **forming–storming–norming–performing** model of group development was first proposed by Bruce Tuckman in 1965, who said that these phases are all necessary and inevitable in order for the team to grow, face up to challenges, find solutions, plan work, and deliver results.

Stage 1: Forming

The first stage involves assembling the team and defining the goals, which should provide focus and be attainable. It is important that the team leadership understands the strengths of each of the team members in order to assemble a cohesive team. Often in the forming stage, team members will be extremely polite to one another; they will be feeling each other out. An example of a goal that the team may set would be the project schedule. For a construction team, for example, there are many stages of the project that should be completed in a certain time frame to ensure that the project is completed on time for the

owner. The design team designates the appropriate amount of time for the construction phase in which the builder will make a profit. It is important to agree upon and set this schedule from the beginning.

Stage 2: Storming

The second phase involves coordinating efforts and solving problems. If the teamwork starts to slip because of a difficult problem, it is necessary for the team members to get the project back on track. Team members should be conscious of the team's health and whether the team is taking steps in the right direction to reach the goals. It may be necessary to think creatively about approaches to solving a problem.

Communication is extremely important to effective team performance in the storming stage. Effective teams communicate clearly and openly about problems. Ineffective communication can cause unnecessary tension and stress to team members. It is important that communication be relevant and responsive. Relevant communication is task-oriented and focused. Responsive communication involves the willingness of team members to gather information, to actively listen, and to build on the ideas and views of other team members.

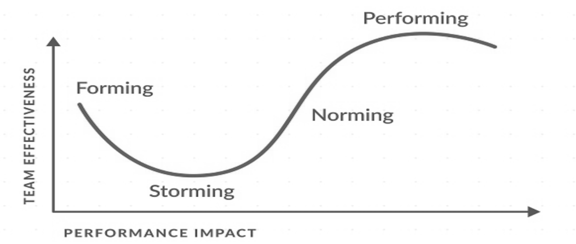
Stage 3: Norming

The project norms are an informal standard of conduct that guides the behavior of team members. This stage involves defining team roles, rights, and responsibilities. It is important to establish these norms at the beginning of the team-building process in order to avoid problems along the way. In addition to allocating responsibilities, it may also be necessary to allocate the risk that is to be undertaken by each team member. Each member of the team should have a sense of ownership of the project. Allocating responsibility also means establishing a team leader.

Team leadership should not be a top-down effort, but should be more of a coaching role. The team leader must act as a cheerleader, encouraging the team members to work together, providing ideas, and serving as a role model. There is often a period after the team has been formed when a conflict of personalities or ideas will arise. Team members begin to show their own styles; they are no longer worried about being polite. At this stage, there will be pessimism on the part of team members in relation to the project and there may also be confusion.

Stage 4: Performing

By this stage, the team is working together effectively, problems have been smoothed out, and achievements begin to become evident. A great deal of work will be accomplished at this stage. The team will be able to tackle new tasks easily and confidently. They will be comfortable using creative means. It is essential at this point to evaluate and report on progress that has been made.



The four stages of team development are:
1. Forming > 2. Storming > 3. Norming > 4. Performing

Decision-Making

We all have to make decisions every day. Some of them are quite simple, others are more difficult. Difficult decisions typically involve issues like uncertainty, complexity, and high-risk consequences. The best way to make a decision is to use an effective process. Clear processes usually improve the quality of our decisions and lead to high-quality results.

Decision Making Process

Some decisions are easy ones. But in the professional world, you will face complicated and high-impact choices that can affect your business's bottom line. Decision making is the process of making choices by identifying a decision, gathering information, and assessing alternative resolutions. Using a step-by-step decision-making process can help you make more deliberate, thoughtful decisions by organizing relevant information and defining alternatives. A variety of researchers have formulated similar prescriptive steps aimed at improving decision-making. We want to introduce on the DECIDE model by Kristina Guo from the UNIVERSITY OF HAWAII. The DECIDE model was intended as a resource for health care managers when applying the crucial components of decision making, but it also enables managers to improve their decision-making skills, which leads to more effective decisions. The DECIDE model is the acronym of 6 particular activities needed in the decision-making process:

Step 1: Define the Problem - Firstly, make sure to define what you want to achieve. Also, pay attention to involving the right people and encourage participants to contribute to the discussions. You can use your creativity right from the start – thinking from a different perspective might deliver the best solutions.

Step 2: Establish the criteria - Collect some information: what information is needed, the best sources of information, and how to get it. This step involves both internal and external "work." Some information is internal: you'll seek it through a process of self-assessment. Other information is external you'll find it online, in books, from other people, and from other sources.

Step 3: Consider all the alternatives - The more good options you consider, the more comprehensive your final decision will be. When you generate alternatives, you force yourself to look at the problem from different angles. If you do so, you're more likely to make the best decision possible. Generating ideas though brainstorming and considering different perspectives will help you and your team develop good alternatives: Evaluate the feasibility, risks, and implications of each choice. By evaluating the risk involved with various options, you can determine whether the risk is manageable. Determine if resources are adequate, if the solution matches your objectives, and if the decision is likely to work in the long term.

Step 4: Identify the best alternative - The next step is to choose between the alternatives. Compare all the choices you have and determine the relative importance of various factors. This helps you compare unlike factors, and decide which ones should carry the most weight in your decision. You may even choose a combination of alternatives.

Step 5: Develop and implement a plan of action - Once you've made your decision, it's important to explain it to those involved in implementing it. Talk about why you chose the alternative. The more information you provide about risks and projected benefits, the more likely people are to support the decision.

Step 6: Evaluate the solution - In this final step, consider the results of your decision and evaluate whether or not it has resolved the need you identified in Step 1. If the decision has not met the identified need, you may want to repeat certain steps of the process to make a new decision. For example, you might want to gather more detailed or somewhat different information or explore additional alternatives.

No one makes perfect decisions all of the time. Business environments are constantly changing and there are lots of unknowns and what-ifs at play. Challenge yourself to go beyond the perfect hypothetical stable business environments, and include other people in your decision making process to get new and different perspectives.

Hidden Traps

Bad decisions can often be traced back to the way the decisions were made – the alternatives were not clearly defined or we missed the right information. But sometimes the fault lies not in the decision-making process but rather in the mind of the decision maker. The way the human brain works can sabotage the choices we make. I humbly introduce Harvard Professor John S. Hammond formulated six decision making traps.

Each of these traps can influence the way in which we make decisions. Being aware of the potential traps and building tests and disciplines into our decision making processes can assist.

Trap 1: Anchoring
We tend to give disproportionate weight to the first information we receive on a particular issue. In negotiating, for example, people will often center around the first offer even if this is not necessarily reasonable.
Tip: Avoid judging on the first impression and seek information from a variety of sources!

Trap 2: The Status Quo
In most cases, our decision making is biased towards the current situation (status quo), because it is the "safe" and comfortable option.
Tip: Ask yourself if you'd choose the status quo choice if it weren't the status quo!

Trap 3: Sunk Cost
Sunk costs have little to do with making a decision today as they relate to past costs and experiences, but they still are in our minds and often lead us to make inappropriate decisions. This trap relates to making choices in a way that justifies past, flawed choices.
Tip: Get views of people who weren't involved in the previous decisions!

Trap 4: Confirming Evidence
We often look for evidence or opinions that will support and justify our own position or decisions and place more weight on these issues than they deserve.
Tip: Ask somebody to play Devils' Advocate (taking the counter position)!

Trap 5: Framing
How a question is framed can have an impact on the answer you select. A common framing trap is to frame a question in terms of gains or losses. People tend to pick the decision that is formulated least risky regardless of the real content.
Tip: Pose questions in a neutral manner!

Trap 6: Estimating and Forecasting
Even though most of us are not very good at making proper forecasts, we actually tend to be overconfident about our accuracy. Additionally, we are overly influenced by vivid memories of past events when estimating.
Tip: Be disciplined in forecasting and use statistics instead of personal impressions!

The six traps can all work in isolation. But, even more dangerous, they can work in concert, amplifying one another. A dramatic first impression might anchor our thinking, and then we might selectively seek out confirming evidence to justify our initial inclination. We make a hasty decision, and that decision establishes a new status quo. As our sunk costs mount, we become trapped, unable to find a propitious time to seek out a

new and possibly better course. The psychological miscues cascade, making it harder and harder to choose wisely. The best protection against all psychological traps – in isolation or in combination – is awareness. Forewarned is forearmed. Even if you can't eradicate the distortions ingrained into the way your mind works, you can build tests and disciplines into your decision-making process that can uncover errors in thinking before they become errors in judgment.

Project Management

What is a Project?

A project is "a unique endeavor to produce a set of deliverable (s) within clearly specified time, cost and quality constraints". A project can be as small as moving your office or as complicated as moving your entire company from one location to another. It can involve on person or hundreds of people. There are, however, certain characteristics that most projects have in common. Some typical projects are launching a new product or process, implementing a new company software, replacing existing manufacturing equipment or reorganizing a department, division, or organization. Project Management is the skills, tools and management processes required to undertake a project successfully.
Projects differ from standard business operational activities:

- Projects are unique in nature. They are one-time events and they do not involve repetitive processes. Every project undertaken is different from the last, whereas operational activities often involve repetitive processes.
- Projects have a defined timescale. Projects have a clearly specified start and are required to be completed by a certain deadline.
- Projects have limited resources. An agreed budget as well as amount of labor, equipment and materials is allocated to the project. This limitation requires effective coordination of different people, resources, and processes.
- Projects involve an element of risk. Projects entail a level of uncertainty and therefore carry business risk should the project fail.
- Projects achieve beneficial change. The purpose of a project, typically, is to improve an organization through the implementation of business change.

A simple way of approaching project management is as a process with four phases:

Initiation Phase

The Initiation Phase is the first phase in the project. Before work on the project can be started, it's necessary to clearly define what the outcomes of the project will be. This involves not only what specifications and criteria the final project must meet, but when it must be completed and what the budget is. This will probably require some study and analysis, addressing questions about the project such as:

- What's the objective?
- What are the expected, required, and desired results?
- How will success be measured?
- What's the time-frame?
- What are the resource implications?

Essential to effective project management is a clear description of the scope of the project – what is included in the project, what is not included, and where the boundaries between the two are set – established at the start of the project. 'Scope creep' is the term for what may occur when the scope is not well defined: as the project progresses, it grows. It thus becomes more difficult to complete the project or satisfy the client. Imagine you are project manager in an American construction company and your firm won a contract to design and build the first copper mine in Northern Argentina. There is no existing infrastructure for either the mining industry or large construction projects in this part of South America.

During the initiation phase of the project, you should focus on defining and finding a project leadership team with the knowledge, skills, and experience to manage a large complex project in a remote area of the globe. You decide to open two offices: One in *Buenos Aries* to establish relationships and Argentinian expertise, and the second in *Catamarca* – the largest town close to the mine site. With offices in place, the project start-up team began developing procedures for getting work done, acquiring the appropriate permits, and developing relationships with Argentine partners.

Planning Phase

Once the outcome of the project has been defined, the project enters the detailed planning phase. It's important to develop a plan of what work needs to be done, what resources are needed, who will do it, and when. The level of detail needed in the plan will be determined by the complexity of the project and the number of people involved. The plan will probably not be followed exactly – things will happen that lead to adjustments and modifications. One reason for having the plan is to be able to see what needs to be adjusted when a task takes longer than expected or people or other resources are not available when needed. In developing the plan, consider the specifications from the client and any required completion date, the budget, the best sequence of events (and whether any steps can be carried on concurrently), the staff needed and the need for any staff training for their part in the project. The planning phase involves the creation of:

- a Project Plan (that outlines the activities, tasks, dependencies and timeframes);
- a Resource Plan (that lists the labor, equipment and materials required);

- a Financial Plan (that identifies the labor, equipment and materials costs);
- a Risk Plan (that highlights potential risks and actions taken to mitigate them); and
- a Communications Plan (that lists the information needed to inform stakeholders).

Two key components of any plan are milestones and status reports. A milestone marks the end of a stage or period of the project, and may also be tied to a project deliverable, a specific product provided to the client. During the planning, identify and establish milestones along the way to provide an indicator of progress and successes, and the impact of difficulties or delays that have been encountered. Also, establish a schedule and procedure for communicating status and progress of the plan on a regular basis. Regular timely sharing of this information will allow the opportunity to adjust the plan and re-balance the quality, time and cost constraints. During the planning phase, your project team develops an integrated project schedule that coordinates the activities of the design, procurement, and construction teams.

- The project controls team also develops a detailed budget that enabled the project team to track project expenditures against the expected expenses.
- The project design team builds the conceptual design and developed detailed drawings for use by the procurement team.
- The procurement team uses the drawings to begin ordering equipment and materials for the construction team; develop labor projections; refine the construction schedule; and set up the construction site.

Although planning is a never-ending process on a project, the planning phase focused on developing sufficient details to allow various parts of the project team to coordinate their work and allow the project management team to make priority decisions. At this point the project has been planned in detail and is ready to be executed.

Execution Phase

The execution phase may be the longest and most visible phase of the project. It is during this stage that activities move from paper to more tangible components. It's important to monitor progress, track milestones, and regularly communicate the progress, delays, or detours, both internally to the project team and organization, and externally to the client. Monitoring progress and tracking milestones can mean inspecting and testing interim, partial, or pilot products, auditing work records, or holding progress review meetings to compare the original plan of what would be done when and by whom to the actual work and output.

During the execution phase, your project team accomplishes the work defined in the plan and makes adjustments when the project factors changed. Equipment and materials are delivered to the work site, labor is hired and trained, a construction site is built, and all the construction activities, from the arrival of the first dozer to the installation of the final light switch, are accomplished.

Closure Phase

The project closure phase involves releasing the final deliverable (s) to the customer, handing over project documentation, terminating supplier contracts, releasing project resources and communicating the closure of the project to all stakeholders.
While whatever has been created or developed may go on, the project team's work is done. Activities at the closing of the project can be split into two categories: those for the client or stakeholder, and those for the team and organization.

- For the client: Those who will be using the product need information to do their job effectively. This information includes training and documentation to be turned over to those responsible on a daily, ongoing basis for the new or revised process, system, or product. Also included is a formal sign-off that indicates the client has accepted the product or system.
- For the project team: Evaluate how the project management process worked, and record lessons learned for a more effective process the next time. Celebrate the completion of the work, and the team's accomplishments. Then release or reassign the resources (staff, equipment, and facilities) to their regular jobs or to new projects.

The closure phase includes turning over the newly constructed plant to the operations team of the client. A punch list of a few remaining construction items is developed and those items completed. You close the office in *Catamarca* and the office in *Buenos Aries* archives all the project documents. You close the accounting books, write the final reports, and start with your next project. Good job!

Negotiation Styles and Preparation

A negotiation should never be a conflict in which one party wins and one party loses. Upon completion of a successful negotiation both parties should have the feeling that they have won something. Therefore, negotiation is about cooperation. The primary goal should be to achieve a deal that both parties can live with and that accomplishes your goals. There are two major negotiation styles: hard and soft bargaining. Hard bargainers use a relatively aggressive negotiation style. The focus is on achieving own goals, whereas the other party's situation is unimportant. Soft bargainers, on the other hand, try to find solutions that appease all parties. They act more patient and more trustworthy.

Roger Fisher and William L. Ury, both Professors from Harvard Law School, recommend a negotiation style called win-win negotiation. As the name suggests, this technique fits into the category of soft bargaining styles. They base their principled negotiation, also called Harvard method, on the following four points:

1. Focus on the interests of all parties, not their positions.
2. Separate the people from the issue.
3. Make a list of creative options that meet the interests of both parties.
4. Base the end result on an objective standard.

Here are some steps you should consider before the negotiation process starts:

- Choose a meeting location where you feel comfortable.
- Establish your goals and make sure, that they are realistic.
- Research the other party's members and their positions.
- Gather facts and information about the subject of the negotiation.
- Focus on the other side's interests to find win-win solutions.
- Try to find options that meet interests of both parties.
- Define your "best alternative to a negotiated agreement" (**BATNA**)

What does the "best alternative to a negotiated agreement" (**BATNA**) stand for? It is the exact point, when the deal the other side is offering is no longer beneficial to you. For example, if you are negotiating about getting a job at firm A and you already have a job offer from firm B worth $40,000 per year, this salary is your current **BATNA**.

Negotiation Process and Traps

Regarding the negotiation process, there are some strategies and tricks you should consider:

- Make the other side feel comfortable and use small talk to break the ice.
- Use "active listening" (listen carefully, be patient, ask questions, show interest). Periodically repeat and summarize what they are saying so they will realize that you are taking them seriously and actually listening to them.
- Begin with those points most likely to be agreed upon and then proceed in descending order of what is likely to be agreed upon.
- Never give up "something for nothing." Always link something that you are asked to give up with something that you want.

- Try to see the other person's side and separate the people from the issue. Let the other party know that you are seeking a win-win resolution so that both parties gain rather than one party winning at the expense of the other.
- Don't be afraid to walk away, when you can't find an agreement.

Finally, there are some traps in negotiating people may use while negotiating with you:

- In many cases, parties try to make even very small changes after both parties already agreed to all parts of a contract. This trick, often used to make minimal changes, is called nibbling.
- Using the good guy, bad guy-trick, one individual you are dealing with is a hard, aggressive bargainer whereas another one will try to make you believe he is working as a mediator.
- A party could set you an ultimatum to intimidate you and get you to sign the agreement quickly.
- By using the trick of limited authority, people may also offer you a deal, agree with you on it and pretend shortly before signing the contract, that their supervisor will only approve the deal for a slightly higher price.
- You should also be prepared for checking statistical data the other side shows you. Not all data is trustworthy.

Change Management

We live in a world where "business as usual" is change. New initiatives, project-based working, technology improvements, staying ahead of the competition – these things come together to drive ongoing changes to the way we work. In this chapter we will introduce and discuss the most important change management models.

Lewin: Three Phases Change Model

One of the most popular models for understanding organizational change was developed by Kurt Lewin. Lewin explained change using the analogy of changing the shape of a block of ice in three steps. If you want to change a cube of ice towards a cone of ice, you must…

- melt the ice (unfreeze),
- mold the water into the shape you want (change), and
- solidify the new shape (refreeze).

Therefore, his model is known as Unfreeze-Change-Refreeze model.

Stage 1: Unfreeze
The first stage is about getting ready to change. It involves getting to a point of understanding that change is necessary, and getting ready to move away from our current comfort zone. Key to this is developing a compelling message showing why the existing way of doing things (status quo) cannot continue. The more we feel that change is necessary, the more urgent it is, the more motivated we are to make the change. This first stage involves moving ourselves, or a department, or an entire business towards motivation for change. "Unfreezing" is usually difficult and stressful. When you start cutting down the way things are done, you put everyone and everything off balance.

Stage 2: Change
Change is not an event, but rather a process. That's why the second stage can also be called "transition". People are now moving towards a new way of being. They start to believe and act in ways that support the new direction. This is not an easy time as people are learning about the changes and need to be given time to understand and work with them. People need time to understand the changes and they also need to feel highly connected to the organization throughout the transition period. It's important to keep communicating a clear vision of the desired change and the benefits to people.

Stage 3: Refreeze
This stage is about establishing stability once the changes have been made. The changes are accepted and become the new norm. This means making sure that the changes are used all the time; and that they are incorporated into everyday business. With a new sense of stability, employees feel confident and comfortable with the new ways of working. As part of the Refreezing process, make sure that you celebrate the success of the change – this helps them believe that future change will be successful.

Lewin's change model is a simple and easy-to-understand framework for managing change. You start by creating the motivation to change (unfreeze). You move through the change process by promoting effective communications and empowering people to embrace new ways of working (change). And the process ends when you return the organization to a sense of stability (refreeze), which is so necessary for creating the confidence from which to embark on the next, inevitable change.

Kotter: 8-Step Change Model

Although Lewin's model helps to describe and understand change management, there are more detailed models that focus on how to "do" change. John Kotter, a professor at Harvard University and world-renowned change expert, identified eight stages of change a company must successfully complete to achieve lasting, sustainable business improvements.

Step 1: Create Urgency
During this first step it is essential to ensure that the employees are motivated to participate. A change is only successful if the whole company really wants it. If you are planning to make a change, then you need to make others want it.

Develop a sense of urgency around the need for change. This may help you spark the initial motivation to get things moving. Open an honest and convincing dialogue about what's happening in the marketplace and with your competition. If many people start talking about the change you propose, the urgency can build and feed on itself.

Step 2: Form a Powerful Coalition

Convince people that change is necessary. This often takes strong leadership and visible support from key people within your organization. You can find effective change leaders throughout your organization – they don't necessarily follow the traditional company hierarchy. To lead change, you need to bring together a coalition, or team, of influential people whose power comes from a variety of sources, including job title, status, expertise, and political importance. Once formed, your "change coalition" needs to work as a team, continuing to build urgency and momentum around the need for change. Make them feel that they are important within the team.

Step 3: Create a Vision for Change

Create a vision that clearly defines where the organization is going. When you have a clear vision, your team members know why they are working on the change initiative and rest of the staff know why your team is doing the change. A clear vision can help everyone understand why you're asking them to do something. When people see for themselves what you're trying to achieve, then the directives they're given tend to make more sense.

Step 4: Communicate the Vision

Creating the vision is not just enough for you to implement the change. You need to communicate your vision frequently and powerfully, and embed it within everything that you do. Talk about it every chance you get – this could be in meetings or just talking over the lunch.. When you keep it fresh on everyone's minds, they'll remember it and respond to it. However, what you *do* is far more important than what you *say*. Demonstrate the kind of behavior that you want from others.

Step 5: Remove Obstacles

No change takes place without obstacles. Always, there are people, who resist the change. Watch out for obstacles and remove them as soon as they appear. Put in place the structure for change and continually check for barriers to it. Removing obstacles will increase the morale of your team, and it can help the change move forward.

Step 6: Create Short-Term Wins

Give your company a taste of victory early in the change process. Quick wins are the best way to keep the momentum going, because nothing motivates more than success. Create not just one long-term goal but also short-term targets. By quick wins, your team will have a great satisfaction and the company will immediately see the advantages of your change initiative.

Step 7: Build on the Change
Many change projects fail because victory is declared too early. Real change runs deep. Quick wins are only the beginning of what needs to be done to achieve long-term change. Each success provides an opportunity to build on what went right and identify what you can improve.

Step 8: Anchor the Changes in Corporate Culture
Finally, the change should become part of the core of your organization. "In the final analysis, change sticks when it becomes *the way we do things around here*, when it seeps into the bloodstream of the corporate body" (John Kotter). Use mechanisms to integrate the change into people's daily life and corporate culture. It's also important that your company's leaders continue to support the change. If you lose the support of these people, you might end up back where you started.

Each of the steps that Kotter outlines in his process are important, but none may be as crucial as the first one. Kotter noted that for change to happen at least 75% of the company's management has to be on board. That's why it is so important to take the time and effort to build the urgency necessary to get others to buy-in to your change-related projects.

Responses to Change

In the constantly changing corporate world, the one who welcomes the changes stays ahead of the competition. But you have to work hard to change an organization successfully. When you plan carefully and build the proper foundation, implementing change can be much easier, and you'll improve the chances of success. If you're too impatient, and if you expect too many results too soon, your plans for change are more likely to fail.

Create a sense of urgency, train powerful change leaders, build a vision and effectively communicate it, remove obstacles, create quick wins, and build on your momentum. If you do these things, you can help make the change part of your organizational culture. That's when you can declare a true victory. Individuals often have three different responses to change. Some will be obvious in either their support (accelerators) or their opposition (resistors), while others accept the fact that some degree of change is inevitable (channelers).

- Accelerators: People in this group are interested in accelerating the changes they see coming. These are the people who typically feel marginalized or unfulfilled by the status quo and actually want change. Accelerators want to put the pedal to the metal for change, to really pour it on.
- Resistors: The second group are the Resistors who, as their name implies, are conservative with regard to some potential change and will resist that change. Resistors are typically those who derive their sense of

self and place from the status quo (like Elites) and for whom any change from the current state of affairs is undesirable.

- Channelers: The third group are the Channelers. These are the stakeholders who recognize that change is coming, typically accept that some degree of change is inevitable, and therefore attempt to channel it as much as possible to align with their preferences and values.

Identifying resistance to change and managing it quickly is vital to your change management process; failure to do so can derail even the most carefully planned change. Reinforcing supporters alone will not guarantee a successful change process.
The first step to overcoming resistance is to understand why the resistance is there. The primary reason for resistance is that change requires employees to alter their existing individual and organizational identities. Once you have identified the true sources of resistance to the change, you can work to address them. This may require individual attention. Following are some tips for dealing with resistance once you've identified the cause.

- Ask the resisters to explain why they are resistant. You might learn something that you didn't know before and you could even improve the change process.
- Demonstrate the benefits in adapting the change. You might use personal gains such as potential salary increase, recognition, promotion opportunities, etc.
- If resistance is due to general fear of what the change might mean to them, consider putting the resister on a team that is determining how to implement the change. For example, a front-line person may be afraid that upper-level decision makers won't understand exactly how the change will impact them on a day-to-day basis. Putting this person on the implantation team lets them understand the process and can also provide valuable information.
- Discuss the change in broad-based meetings to put everyone on the same page and provide everyone with the same information.
- Although it is unpleasant to consider, individuals who stay resistant may have to leave the organization. However, training new employees is more expensive and knowledge will be lost. Remember that most employees will eventually adapt the change if given the right incentives, the right information and support.

Crisis Management

Crisis management is the process by which an organization deals with a major event that threatens to harm the organization, its stakeholders, or the general public. Whether an earthquake destroys infrastructure, computer hackers shut down a company's entire, a terrorist attack destroys lives and property, or a key manager dies with no replacement – all these events must be addressed immediately.

Many different models of Crisis Management exist in the public and private sectors. This section argues that Crisis Management can best be defined by the following six-stages process model:

Stage 1: Avoiding the Crisis
Crises are unpredictable, but they do not have to be entirely unexpected. As a manager, you have to prepare for crises when things are going well. Key to good preparation is not only crisis management planning but also the implementation of training and exercising.

- Include crisis planning in your overall strategic planning process and talk to people from other areas of your company about risks in your industry.
- Perform the SWOT analysis: Find strengths and weaknesses of your company as well as, environmental opportunities and threads for your business.
- Develop a crisis-risk list: What are the worst things that could go wrong? And what are the most likely crises that could occur?

Stage 2: Preparing to Manage the Crisis
In a second step, a manger should develop a crisis plan. Consider everything that might go wrong, and assess the costs if it should. After selecting what-if scenario and possible consequences he/she should brainstorm the kinds of decisions that will have to be made.

- Perform a reality check on your plan by brainstorming possible side effects.
- Form a crisis-management team and create a communications plan with key persons.
- Think about what resources will be needed to handle the crisis.

Stage 3: Facing the Crisis
In this stage, you have to face unpleasant situations – things get serious! But is the current situation a crisis? In this stage you have to characterize the event and evaluate the size of the crisis. Furthermore, you have to evaluate honestly how you manage the situation.

- Estimate the size of the crisis: How many people are involved? Who and where are they?
- Get a team in place as quickly as possible.
- Get all the information you can get about what’s happening.

Stage 4: Containing the Crisis
The fourth stage is about damage control and communicating. You have to make decisions – and you have to make them quickly. Be on the scene and show physical presence, respond to your people and communicate critical information to them.

- Stop rumors and false information. Inform key people who needs to know and do so quickly.
- Stick to the facts and Make your message straightforward and confident.
- Communicate honestly (otherwise people may blame you for failure).

Stage 5: Resolving the Crises
Crisis require fast, confident decision making. Therefore, managers should not be paralyzed when there are no standard operating procedures. Often, they just have to trust their judgment and take action. By making decisions, ensure that the safety of the people is always prioritized and that you grasp new developments.

- Focus on what is in your control and ignore what is not.
- Help everyone work together and draw people together to act as a team.
- Avoid blaming others.

Stage 6: Learning from the Crisis
Once the crisis has passed, you can use the experience and make changes to prepare for similar crisis. A manager should review how the crisis was handled and plan ahead.

- Try to find out, if there were warning signals that you may have ignored.
- Evaluate what you did right and what you could improve.
- Get input from everyone.

Business Ethics

Business ethics deals with moral guidelines and good corporate governance. Companies are supposed to set high standards and adhere to certain common business practices. In this chapter, we will cover the essentials of business ethics, social responsibility, and sustainability. Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed.

Ethics and Law

Ethics are moral guidelines which govern good behavior. Today, many people believe that business is in some way unethical or amoral. Various scandals all around the world concerning undesirable business activities, such as the despoiling of rivers with industrial pollutants, the exploitation of sweatshop workers, the payment of bribes to government officials, and the deception of unwary consumers have highlighted the unethical way in which some firms have gone about their business.

However, just because such malpractices take place, does not mean that there are not some kinds of values or principles driving such decisions. After all, even what we might think of as ‘bad’ ethics are still ethics of a sort. And clearly, it makes sense to try and understand why those decisions get made in the first place, and indeed to try and discover whether more acceptable business decisions and approaches can be developed.

Many day-to-day business activities require the maintenance of basic ethical standards, such as honesty, trustworthiness, and co-operation. Business activity would be impossible if corporate directors always lied; if buyers and sellers never trusted each other; or if employees refused to ever help each other.It is worth stressing that by ‘right’ and ‘wrong’ we mean morally right and wrong as opposed to, for example, commercially, strategically, or financially right or wrong. Moreover, by ‘business’ ethics, we do not mean only commercial businesses, but also government organizations, pressure groups, not-for-profit businesses, charities, and other organizations.

So behaving ethically is doing what is morally right. But the law is also about issues of right and wrong, correct? This is true, and there is an overlap between ethics and the law. Nevertheless, the two concepts are not equivalent and behaving ethically is not quite the same thing as behaving lawfully:

- Ethics are about what is morally right and what is morally wrong.
- Law is about what is lawful and what is unlawful.

Many moral issues are not explicitly covered by the law. For example, in many countries there is no law preventing businesses from testing their products on animals, selling weapons to oppressive regimes, or preventing their employees from joining a union – decisions which many people would define as unethical. Similarly, there are issues that are covered by the law, but are not really about ethics. For example, the law whether you should drive on the right or the left side of the road is not an ethical decision.

The problem of trying to make decisions in the areas of business ethics, or where values may be in conflict, means that many of the questions posed are ambiguous. There simply may not be a definitive ‘right’ answer to many business ethics problems. And as is the case with issues such as the animal testing of products, executive pay, persuasive sales techniques, or child labor, business ethics problems also tend to be very controversial. So business ethics is not about learning specific procedures and facts in order to make objectively correct decisions – but it should help you to make better decisions.

Social Responsibility

Some managers believe that business’s sole duty is to make profits. In their view, it is up to government to determine what the laws should be. A profitable business benefits society by creating jobs, increasing the standard of living of its owners and its employees. Corporations pay the taxes that support government’s social action. Today, more and more experts tend to discourage this view. Business ethics rests on the assumption that businesses ought to adhere to a socially responsible approach to decision making called

the social responsibility approach. Proponents of this approach believe that corporations have societal obligations that go beyond maximizing profits.

Corporate Social Responsibility (CSR)deals with actions that affect a variety of parties in a company's environment. A socially responsible company shows concern for all its stakeholders—anyone who, like owners, employees, customers, and the communities in which it does business, has a "stake" or interest in it. Corporate Social Responsibility (CSR) is a self-regulating business model that helps a company be socially accountable — to itself, its stakeholders, and the public. Recognizing how important social responsibility is to their customers, many companies now focus on and practice a few broad categories of CSR:

- Environmental efforts: One primary focus of corporate social responsibility is the environment. Businesses regardless of size have a large carbon footprint. Any steps they can take to reduce those footprints are considered both good for the company and society.
- Philanthropy: Businesses can also practice social responsibility by donating money, products or services to social causes. Larger companies tend to have a lot of resources that can benefit charities and local community programs.
- Ethical labor practices: By treating employees fairly and ethically, companies can also demonstrate their corporate social responsibility.
- Volunteering: Attending volunteer events says a lot about a company's sincerity. By doing good deeds without expecting anything in return, companies can express their concern for specific issues and support for certain organizations.

To accomplish various CSR goals, the founders of the American ice cream manufacturer Ben & Jerry's, Ben Cohen and Jerry Greenfield, created the "Ben & Jerry's Foundation." The company has set the bar high by giving 7.5% of its pretax profits to charitable organizations around the world. Ben and Jerry's strives "to show a deep respect for human beings" whether they work for the company or not. The foundation awards more than $1.8 million per year to fund community action, social change, and other sustainability initiatives.

Sustainability

Faced with growing global problems like environmental pollution, climate change, or waste disposal, it has been widely suggested that the goals and consequences of business today require radical re-thinking. One concept in particular appears to have been widely promoted as the new frame for assessing not only business activities, but industrial and social development more generally. That concept is sustainability. For a long time, sustainability as a concept was largely synonymous with environmental sustainability. Today, the concept of sustainability has been broadened to include not only *environmental* considerations, but also *economic* and *social* considerations.

Sustainability refers to the long-term maintenance of systems according to environmental, economic and social considerations.

All businesses must make money. But some companies realize that they can do more. The triple bottom line (TBL) is a concept which broadens a business' focus on the financial bottom line to include social and environmental considerations. The concept was introduced in 1994 by John Elkington and the three bottom lines are often referred to as the three P's:

People:
Companies that follow the triple bottom line way of doing business think about the impact their actions have on all the people involved with them. This can include everybody from farmers supplying raw materials, on up to the CEO of the company. Everyone's well-being is taken into consideration. The company offers health care, good working hours, a healthy, safe place to work, and opportunities for education.

Planet:
Triple bottom line companies take pains to reduce or eliminate their ecological footprint. They strive for sustainability, recognizing the fact that "going green" may be more profitable in the long run. But it's not just about the money. Triple bottom line companies look at the entire life cycle of their actions and try to determine the true cost of what they're doing in regards to the environment.

Profit: The financial bottom line is the one that all companies share, whether they're using the triple bottom line or not. When looking at profit from a triple bottom line standpoint, the idea is that profits will help empower and sustain the community as a whole, and not just flow to the CEO and shareholders.

In 2016 the Swedish furniture giant IKEA reported sales of $37.6 billion. The same year, the company turned a profit by recycling waste into some of its best-selling products. Before, this waste had cost the company more than $1 million per year. Sustainable organizations recognize that *profit* isn't opposed to *people* or *planet*. According to J. Yarrow, IKEA's head of sustainability for the UK, "We don't do this because we're tree huggers, we do this because it's very cost effective."

Though the triple bottom line has been around for decades, events such as the 2008 financial crisis, the BP oil spill, and climate change cast an almost constant spotlight on corporate ethics and corporate social responsibility. For global companies, changing operations to minimize risk and fight climate change, for example, requires a lot of time and money. But an upfront investment in corporate sustainability can pay off. Various studies prove that companies that treated sustainability seriously – by making a business case for it and setting concrete goals – were the ones that profited from sustainable activities.

Time Management

Time management is the process of planning and exercising control over the amount of time spent on specific activities, especially to increase effectiveness or efficiency. Traditionally, time management referred to just business or work activities, but today the term broadened to include personal activities as well. A time management system is a designed combination of processes, tools, techniques, and methods. Regardless of the time management strategies you use, you should take time to evaluate how they have worked for you. Try to find a healthy balance between work and home life. Focus on the tasks that are most important in your life. Invest enough time in your own personal well-being.

Always remember that successful time management today can result in greater personal happiness, greater accomplishments at home and at work, increased productivity, and a more satisfying future. Finding a time management strategy that works best for you depends on your personality, ability to self-motivate and level of self-discipline. By incorporating some of the ten steps below, you can more effectively manage your time.

1. **Know How You Spend Your Time**
   Figure out how much time you usually spend on your activities and evaluate the results. Determine which tasks require the most time; determine the time of day when you are most productive; and analyze where most of your time is devoted.

2. **Set Priorities**
   One of the easiest ways to prioritize is to make a "to do" list. Put the most important tasks at the top and tackle them first. Just be careful not to allow the list-making to get out of control and do not keep multiple lists at the same time.

3. **Use a Planning Tool**
   Use a personal planning tool to improve your productivity – and keep it with you. Examples of personal planning tools include electronic planners, pocket diaries, calendars, computer programs, notebooks and your smart phone.

4. **Get Organized**
   Disorganization results in poor time management. Implement a system that allows you to handle information effectively. This is not only true for your desk and office bookcase, but also for your computer files and your emails.

5. **Schedule Your Time Appropriately**
   Plan your most challenging tasks for when you have the most energy and block out time for your high priority activities. However, try to limit scheduled time to 70% of your day, leaving some time for creative activities such as planning, thinking, and reading.

6. **Delegate: Get Help from Others**
   Identify tasks that others can do and then select the appropriate person to do them. Be specific in defining the work, but allow the person some freedom to personalize the task. Finally, don't forget to reward the person for a job well done.

7. **Stop Procrastinating**
   Some tasks seem overwhelming, some seem unpleasant. Try breaking down the tasks into smaller segments that require less time commitment and result in realistic deadlines. If you're having trouble getting started, ask some colleagues for help.

8. **Manage Time Wasters**
   Decrease or eliminate time spent on activities imposed by other people (e.g., don't schedule meetings unless they are necessary and ask employees to make appointments during periods when you have a lot of work to do).

9. **Avoid Multi-tasking**
   Multi-tasking does not actually save time. In fact, the opposite is often true: You lose time when switching from one task to another, resulting in a loss of productivity. Stay focused on your current problem instead of trying to deal with ten problems at once.

10. **Get time for yourself**
    The care and attention you give yourself is an important investment of time. Scheduling time to relax can help you rejuvenate both physically and mentally. To reduce stress, you should reward yourself for a time management success.

To be a great manager, you must have an extensive set of skills – from time management and delegation to communication and motivation. That's why it is so important to continuously improve your skills. We hope that this course was able to give you a good understanding and complete overview of the most important management skills and that it will help you to succeed today's business world.

Thank You

Day 04

Economics and International Business

— Introduction —

Welcome to **Economics and International Business** ! Economics is the science that studies the choices of individuals, households, and organizations, in allocating scarce resources. Scarcity means that individuals and societies have limited resources and therefore cannot produce all the goods and services people wish to have. Economics is the social science that studies how societies manage their scarce resources. Although many people don't recognize it, we all make economic decisions every day – we decide what products or activities fit into our budgets and needs. Through these decisions, we define what we want to be available on the market and at what price. The economic system is the place, where goods and services are produced, distributed, and consumed.

Economists study how people make decisions about buying, selling, saving, and investing. We study how people interact with one another in markets. We also study the economy as a whole when we concern ourselves with total income, unemployment, and inflation. For businesses, creating a long-term global strategy is a complicated but important task. As is evident throughout this course, no country is an economic island, and the economy truly is global. A growing number of businesses have become true multinational firms, with operating facilities around the world. They have figured out how to mitigate their risks both politically and economically, but they have also found how events in one nation can reverberate around the world. As businesses contemplate and engage in global expansion, there are endless opportunities, but also potential risks. The home market is also attractive to foreign firms. For an organization to be successful in today's global economy, its owners and stakeholders must look across borders and understand the global community.

Ten Principles of Economics

Although the study of economics is complex, the field is unified by several central ideas. The Ten famous principles of Economics by Gregory Mankiw are the principles of how the global economy works. These principles also include basic concepts used by economists around the world.

Principle 1: People face trade-offs.
Economists often say, "There aren't no such thing as a free lunch." This means that there are always trade-offs: To get one thing, you have to give up something else. For example, if you spend money on a new computer, you won't be able to spend it on a new television. This principle also works for nations. There is the classic trade-off between "guns and butter": if society spends more on national defense (guns), then it will have less to spend on social programs (butter). Recognizing that trade-offs exist does not indicate what decisions should be made.

Principle 2: The cost of something is what you give up to get it.
Making decisions requires comparing the costs and benefits of alternative courses of action. For instance, if a firm spends $100 on electrical power, they can't use that money to buy new office equipment. Economists say the firm's opportunity cost is $100. The **opportunity cost** of an item is whatever you give up to get that item.

Thus, opportunity costs are not restricted to financial costs: By seeing a movie in a cinema, your opportunity cost is not just the price of the ticket, but the value of the time you spend in the theater. Put another way, opportunity costs are the benefits you could have received by taking an alternative action. When making decisions, managers should always consider the opportunity costs of each possible action.

Principle 3: Rational people think at the margin.
Economists generally assume that people are rational – that means, their decisions are based on facts and reasons. Rational people make decisions by comparing marginal benefits and marginal costs. For example, you should only attend college for another year if the benefits from that year of schooling exceed the cost of attending that year. Furthermore, a car company should only produce more cars if the benefit exceeds the cost of producing them.

Principle 4: People respond to incentives.
Because rational people weigh marginal costs and marginal benefits of activities, they will respond when these costs or benefits change. For example, when the price of cars rises, buyers have an incentive to buy fewer cars. Public policy can alter the costs or benefits of activities. Some policies have unintended consequences because they alter behavior in a manner that was not predicted.

Principle 5: Trade can make everyone better off.
Trade is not a contest in which one side wins and one side loses. Trade can make each trader better off. Trade allows each trader to specialize in the activities he or she does best, whether it be farming, building, engineering or manufacturing. By trading with others, people can buy a greater variety of goods or services. This is true for both individuals and countries. You are likely to be involved in trade with other individuals and companies on a daily basis: Most people do not make their own clothes or grow their own food – but by trading you are able to get all those products.

Principle 6: Markets are usually a good way to organize economic activity.
In a market economy, the decisions about what goods and services to produce and how much to produce are made by millions of firms and households in the marketplace. Political economist Adam Smith made the famous observation that although individuals are motivated by self-interest, an **invisible hand** guides this self-interest into promoting society's economic well-being. Consequently, centrally planned economies have mostly failed because they did not allow the market to work.

Principle 7: Governments can sometimes improve market outcomes.
When a market fails to allocate resources efficiently, the government can change the outcome through public policy. One kind of market failure is **external** – it occurs when the actions of one person affect the well-being of other people. The second kind of

market failure is **market power** – when a single actor has so much power, that he can influence the price. In these cases, the government may be able to intervene. Examples are regulations against monopolies. The government may also intervene to improve equality with income taxes and welfare.

Principle 8: A country's standard of living depends on its ability to produce goods and services.
There is great variation in living standards across countries today as well as within the same country over time. These are largely attributable to differences in productivity. Productivity is the amount of goods and services produced from each unit in a specific time period. As a result, public policy should improve education and improve access to the best available technology.

Principle 9: Prices rice when the government prints too much money.
When a government creates large quantities of the nation's money, the value of the money falls. In this process, called **inflation**, prices increase and consumers require more of the same money to buy goods and services. High inflation is costly to the economy. Policymakers wishing to keep inflation low should maintain slow growth in the quantity of money.

Principle 10: Society faces a short-run trade-off between inflation and unemployment.
In the short run, an increase in the quantity of money (inflation) stimulates spending, which raises production. The increase in production requires more hiring, which reduces unemployment. The result is a temporary trade-off between inflation and unemployment. Understanding this trade-off is crucial for understanding the short-run effects of changes in taxes, government spending and monetary policy.

Strengths and Weaknesses

Did Mankiw succeed in explaining the entire world economy in just 10 simple rules? Or is there more to our global economy and basic human interactions than Mankiw wants us to believe? In this chapter, we will briefly discuss what critics think about Mankiw's 10 principles of economics. Does something complex like our global economy really follow 10 simple principles? Or isn't the world more complicated than that? And is Mankiw's view politically biased? One thing is for sure: not everyone agrees with Mankiw's ideas. Critics argue that the author rarely includes a real discussion of primary sources and often slants toward the classical model of political economy, expounded most famously by Adam Smith. They criticize that Mankiw sees economic laws of the market as immutable "principles" of society — and thus makes his principles seem more like a political ideology. You might already have asked yourself if Mankiw's principles are really a good description of our daily lives. It might be a good idea to think about the following:

- Do the 10 principles ignore important parts that define our day-to-say actions? Whether you're with your friends, at home with your family, in school, or at work with your colleagues and business partners, values of cooperation, love, trust, sacrifice and friendship are probably part of your

lives. Why does Mankiw ignore *these* basic human principles of interaction and only focuses on *his* principles instead?

- Why does Mankiw ignore political power as an important concept? Political power is not even mentioned a single time in Mankiw's entire text. Yet most economists agree that political power plays an important role in explaining our global economy.

In other words, you might criticize that the whole market-centric approach of Mankiw's course is fundamentally at odds with how the world works in reality. Given that Mankiw's ideas are at odds with the actual workings of social and economic life, and even help to perpetuate our societal and economic problems through producing this image of the individual as completely oriented toward market values and ideas, his critics claim that is time to expand the economic conversation towards more pluralism and away from hegemonic, ideologue set-in-stone "principles".

No economic theory is perfect. No simple model can explain the complex world we live in without errors. However, we believe that it both important and useful to know Mankiw's 10 principles to better understand the global economy we live in today. The first edition of Gregory Mankiw's Principles of Economics (1997) initially targeted 20 percent of the economics textbook market for the first edition. Many experts opined that the publisher had a good chance of success. This makes Mankiw's principles one of the most accessible and most read modern economic ideas. The success and popularity of Mankiw's principles are the result of several innovations in this book that help set it apart and put it in front of the several dozen other economic principles textbooks on the market.

Mankiw managed to made the complex theory of economics accessible to a larger audience. He makes it easy to understand his principles and follow his reasoning. He also managed to explain and include sub-topics such as consumer's behavior, fiscal and monetary policy, financial markets behavior and the determination of prices, any many more into his explanation. This is the reason why his principles are part of every economics study program and every manger should know these ideas.
We can put it like this: you probably should not see Mankiw's principles as "*the law of economics*", but rather as your starting point into the exciting world of economics.

The Invisible Hand

Adam Smith's famous book **The Wealth of Nations**, published in 1776, provides the basis for today's market economy. Why do market economies work so well? Is it because all people treat one another with love and kindness? Not at all. Smith argues that participants in the economy are motivated by self-interest. Although a marketplace with millions of participants may appear to be chaotic, the "invisible hand" of the marketplace guides this self-interest into promoting desirable social outcomes and general economic well-being.

In his book, Smith dictates : "How is it that water, which is so very useful that life is impossible without it, has such a low price — while diamonds, which are quite unnecessary, have such a high price?" The answer is connected to the principle of scarcity: Water is not a scarce item relative to diamonds. Smith recognized that "value in use" isn't the same as "value in exchange." Basically, we can't price an item higher simply because it's more useful. In fact, quite the opposite is true.

A product's highest price is determined by its marginal utility, which is the value of its last usable unit. So, water has a relatively low price because it's everywhere and is so useful. Diamonds, on the other hand, have a relatively high price because they're scarce by comparison and not a necessity. You can take two rules away from this case:

- If you produce very useful products (e.g. shampoo), the products will become commodities and the price will come down. Consequently, you have to sell in large volumes to make a profit.
- If you produce products that are limited in their use (e.g. most luxury goods), the price will go up. You'll probably sell fewer products, but you'll make more money on each product.

The "invisible hand" is a term used by Adam Smith to describe the unintended social benefits of individual self-interested actions.

Micro and Macro

In every area of science, there's a big picture and a little picture, the macro and the micro. Macroeconomics and Microeconomics are the two points from which the economy is observed. Microeconomics is the study of small economic units, macroeconomics is the study of the whole economy.

Microeconomics is the study of small economic units such as individual people, families and firms. It tries to explain how individuals and firms respond to changes in price and why they demand what they do at particular price levels. Briefly speaking, microeconomics analysis all the small parts that make up the whole economy.

Macroeconomics looks at the total output of a nation and the way the nation allocates its limited resources of land, labor and capital in an attempt to maximize production levels and promote trade and growth for future generations. After observing the society as a whole, Adam Smith noted that there was an "invisible hand" turning the wheels of the economy: a market force that keeps the economy functioning.

Both approaches are interrelated, as macroeconomic issues help shape the decisions that affect individuals, families, and businesses. Therefore, we will cover the most important concepts of both fields in this course.

Supply and Demand

"Supply" and "Demand" are perhaps the most fundamental concepts of economics and the market economy. Supply points to the willingness of sellers to provide goods and services for sale. Demand points to the ability of buyers to purchase goods and services.

Demand

Demand refers to how much (quantity) of a product or service is desired by buyers. Typically demand rises as the price of a product falls and demand decreases as prices rise. The law of demand states, all other factors being equal, as the price of a good or service increases, consumer demand for the good or service will decrease, and vice versa. The law of demand says that the higher the price, the lower the quantity demanded, because consumers' opportunity cost to acquire that good or service increases, and they must make more tradeoffs to acquire the more expensive product.

The sensitivity of the changes in price and demand is called price elasticity. Products and services have different degrees of price elasticity. For example, if gasoline increases in price, overall demand may not be proportionately reduced, as people still need gas to fuel their vehicles (low degree of price elasticity). If, however, the price of airline travel increases greatly, it may be likely that demand for air travel will have a greater than proportionate decline (high degree of price elasticity).

Businesses need to carefully monitor the factors that may affect demand. If they aren't keeping a careful eye on these different demand elements as related to their business, their competitors will find a competitive advantage that can affect an organization's long-term survival.

Supply

Supply refers to the relationship between different prices and the quantities that sellers will offer: Generally, the higher the price, the more of a product or service that will be offered. The **law of supply** states, all other factors being equal, as the price of a good or service increases, the quantity of goods or services that suppliers offer will increase, and vice versa. The law of supply says that as the price of an item goes up, suppliers will attempt to maximize their profits by increasing the quantity offered for sale.

Market Equilibrium

The **law of supply and demand** states that prices are set by the intersection of the supply and the demand. The point where supply and demand meet identifies the prevailing market price at which you can expect to purchase a product. When the supply and demand curves intersect, the market is in equilibrium. This is where the quantity demanded and quantity supplied are equal. This state where supply and demand are balanced is called the equilibrium price or market equilibrium. The market forces described here, working through the price mechanism, are the essence of Adam Smith's "invisible hand": Supply and demand come into balance without central planning.

The market price is established through competition such that the amount of goods or services sought by buyers is equal to the amount of goods or services produced by sellers.

Economic Systems

In the twentieth century, there were primarily two economic systems that provided answers to the questions of what to produce and for whom, given limited resources: **planned economies** directed by a centralized government and **market economies** based on private enterprise.

Planned Economies

In addition to the private enterprise system, planned economies are another market structure in the world economy. In a planned economy, government controls determine business ownership, profits, and resource allocation. Countries that existed with planned economies, however, have not been highly successful. The most common theory of a planned economy is communism, which purports that all property is shared equally by the people under the direction of a strong central government.

It is an economic system that involves public ownership of businesses. Rather than entrepreneurs, the government decides what products consumers will be offered and in what quantities. Communism was proposed by Karl Marx and developed and implemented by V. I. Lenin. In Marxist theory, "communism" denotes the final stage of human historical development in which the people rule both politically and economically. The communist philosophy is based on each individual contributing to the nation's overall economic success and the country's resources are distributed according to each person's needs. The central government owns the means of production and everyone works for state-owned enterprises.

A planned economy has some advantages: Since government has control over all factors of production the chances of monopoly happening are next to nil under planned economy. Also, it may help in reducing the gap between poor and rich because all government policies are designed to bring social equality. However, the planned economy has some big disadvantages: Firstly, it leads to destruction of entrepreneurs and innovators which in turn leads to lower productivity and also lower growth for a country. Secondly, this system leads to dissent among the citizens as the basic right of human being which free will is challenged under this system. Finally, this system suffers from government bureaucracy, delay in decision making on the part of government officials bottlenecks in production and inefficient use of resources.

Market Economies

The market economy (private enterprise system) is centered on the economic philosophy of capitalism and competition. **Capitalism** is an economic system in which businesses are rewarded for meeting the demands of consumers. It allows for private ownership of all businesses. Entrepreneurs, desiring to earn a profit, create businesses that they believe will serve the needs of the consumers.

Economic decisions and the pricing of goods and services are guided solely by the interactions of a country's individual citizens and businesses. There is little government intervention or central planning.

There are four different types of **competition** in a market economy:

- **Pure competition** is a market or industry in which there are many competitors. It is easy to enter the market, as there are few barriers to entry and many people/firms are able to offer products that are similar to each other. Individual firms have very little control over the price.
- **Monopolistic competition** means that there are fewer competitors, but there is still competition. In this market environment, it is somewhat difficult to enter the market. Due to the differentiation factor, individual firms are able to have some sort of control over the prices.
- **Oligopoly** is a market situation with few competitors. The few competitors exist due to high barriers to entry. The products or services in this market may be similar (telephone companies) or they may be different (supermarkets). Here, firms do have some control over prices.
- **Monopoly** exists in the private enterprise system when there is absolutely no other competition. That means that there is only one provider that exists to provide a good or service. In this case, it is often the government that regulates who can enter the market (e.g. public transportation).

A market economy has several advantages: Firstly, competition leads to efficiency because businesses that have fewer costs are more competitive. Secondly, innovation is encouraged because it provides a competitive edge and increases the chance for wealth. Thirdly, a large variety of goods and services are available as businesses try to differentiate themselves in the market. However, market economies have also disadvantages: Firstly, disparity in wealth exists because wealth tends to generate wealth. It is easier for wealthy individuals to become wealthier than it is for the poor to become wealthy. Secondly, there tends to be a reduced social safety net, because social programs are mostly funded by the government.

Mixed Economies

History has proven that, worldwide, the central command-economy model has not sustained economic growth and was not able to provide long-term economic security for its citizens. The majority of economies that we see today, however, are mixed economies. These are economic systems that display characteristics of both planned and market economies.

In the mixed economy, government-owned firms frequently operate alongside private enterprises. Good examples of this can be found in Europe where the respective governments have traditionally controlled certain key industries such as railroads, banking, and telecommunications. Strictly speaking, all modern economies are mixed, though there are wide variations in the amount of mix and the balance between public and private influence. Today, the majority of economies are mixed economies.

The Business Cycle

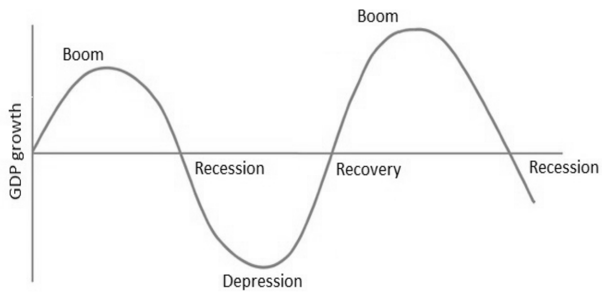
The business cycle, also called the economic cycle, refers to the recurring series of events of expansion, boom, bust, and recession within an economy. The length of business cycles over time are rarely alike. The business cycle experiences periodic cyclical expansions and contractions in overall economic activity.

1. **Boom**
   Firstly, the boom part (or prosperity) of the business cycle occurs when unemployment is low, strong consumer confidence leads to record purchases and as a result, businesses expand to take advantage of the opportunities created by the market. A good example of the market experiencing prosperity took place in Silicon Valley from 1998 to 2001. Suddenly the market identified technology as the next big business opportunity, so companies were adopting online technologies at a record pace; brick and mortar businesses were creating electronic marketplaces for the first time.

2. **Recession**
   Secondly, a recession is a cyclical economic contraction that lasts for at least six months. Economists agree that a recession results in a downturn lasting for at least two consecutive quarters. During a recession consumers frequently postpone major purchases, such as homes and vehicles, and businesses slow production, postpone expansion plans, reduce inventories, and cut workers. As a result, unemployment rises and consumer demand decreases.

3. **Depression**
   Thirdly, a depression is classified as a recession, or economic slowdown, that continues in a downward spiral over an extended period of time. It is also characterized by continued high unemployment and low consumer spending. Many economists suggest that sufficient government tools are available to prevent even a severe recession from turning into a depression. For example, federal, state, and local governments can make investments to improve the country's infrastructure as a means of bringing the market out of a depression. Governments can also influence the economy through regulations in fiscal and monetary policy.

4. **Recovery**
Finally, these tools contribute to the next stage in the business cycle: recovery. The recovery period is when economic activity begins to pick up. Consumer confidence improves, which leads to increased spending on big items such as homes and vehicles. Unemployment also begins to fall, and people are working and contributing to the economy again.



The Stability of an Economy

Economists regularly measure the health of the economy during the year. There are different ways to measure an economy's condition – focusing on productivity levels, inflation levels, and employment levels. Furthermore, economic policy-makers are said to have two different kinds of instruments to influence a country's economy: fiscal policies and monetary policies.

Productivity

Productivity is that relationship between the goods and services produced and the inputs needed to produce them. We can measure economic productivity by checking the Gross Domestic Product (GDP), Consumer Prices Index (CPI), or Income. Here are three methods to measure a nation's productivity:

1. Gross Domestic Product
The Gross Domestic Product, also known as the GDP, is the total dollar value of all goods and services produced in a country each year. It's essentially a record of how much workers produced for consumers to purchase. GDP looks at only new goods – for example, new cars. It is a very popular economic indicator and provides a benchmark for the nation's overall economic activity.

2. Consumer Price Index

The Consumer Price Index, also known as the CPI or the cost of living index, represents the change in price of a specific group of goods and services over time. This group of goods and services is called a market basket, and it includes about 400 items in such categories as food, housing, clothing, entertainment, medical care, and personal care. As a business owner, you need to be aware of the CPI because it affects the rent you pay on your facility or the wages you pay your employees.

3. Income

Income is a way of measuring how much money is available to be spent by individuals and businesses. National income includes such things as wages and salaries, self-employed income, rental income, corporate profits, and interest on savings and investments. Economists are most interested in disposable and personal income. Personal income is all income received before taxes are paid, and disposable income is what's left over after taxes.

Inflation and Deflation

Inflation and deflation are two very important economical concepts. The balance between the two economic conditions, opposites of the same coin, is delicate, and an economy can quickly swing from one condition to the other.

Inflation is defined as a rise in the general level of prices of goods and services over a specified period of time. Inflation is caused when goods and services are in high demand, creating a drop in availability. Consumers are willing to pay more for the items they want, causing manufacturers and service providers to charge more.

Supplies can decrease for many reasons: A natural disaster can wipe out a food crop or a housing boom can exhaust building supplies, among other situations. Inflation impacts the economy because more money is needed to sustain a given standard of living. If people receive a fixed income and suddenly the cost of bread increases dramatically, it is easy to see the negative impact caused by this increased price.

Hyperinflation is very high and typically accelerating inflation. It quickly erodes the real value of the currency, as the prices of most or all goods increase. Unlike regular inflation, where the process of rising prices is protracted and not generally noticeable except by studying past market prices, hyperinflation sees a rapid and continuing increase in nominal prices, the nominal cost of goods, and in the supply of money. Typically, however, the general price level rises even more rapidly than the money supply as people try ridding themselves of the devaluing currency as quickly as possible.

Deflation is the price-level change referred to during a period of falling prices. While deflation sounds good, it can have disastrous consequences; the Great Depression was a general period of deflation. Prices fell, but so did employment and wages for those lucky enough to be employed, as well as availability of most goods and services.

Employment Levels

Employment levels have a major impact on a nation's economy. In fact, the unemployment rate is one of the most popular economic indicators that most people intuitively use to understand the state of the economy. The unemployment rate is usually expressed as the percentage of total workers who are actively seeking work but are currently unemployed. These indicators tend to increase during recessions and decrease during expansions.

Because the unemployment rate is so important, we're going to introduce four different categories that have been created to characterize an economy's state of unemployment:

- **Frictional unemployment** is when someone is temporarily not working. A good example is a recent graduate who is looking for work but has yet to find a job.
- **Seasonal unemployment** occurs when people are not working during some months, but they are not looking for a job during that period. People involved in the tourism industry or seasonal farmworkers are good examples of this.
- **Structural unemployment** results when people are not working because there is no demand for their particular skill set. An example might be someone who graduates with a Ph.D. in medieval economics. There is a relatively low demand for people with this skill set, so structural unemployment results for many in that field.
- **Cyclical unemployment** results when there is an economic slowdown and people are looking for work but there aren't enough jobs. The economic recession resulted in fewer jobs, and even highly skilled graduates with advanced degrees had difficulty finding work. The unemployment rate does not include out-of-work people who are no longer looking for jobs.

Fiscal and Monetary Policy

Economic policy-makers are said to have two different kinds of instruments to influence a country's economy: **fiscal policies** and **monetary policies**.

Fiscal policy is the decision that the government makes to spend money or increase taxes for the specific purpose of stabilizing the economy. Government increases in spending and lowering of taxes tend to stimulate economic growth, while decreasing government spending and increasing taxes tends to slow economic growth.

This makes sense when we think about the individual taxpayer's disposable income. The more money individuals have, the more they will be able to spend on goods and services in the market and therefore stimulate market growth. The primary sources of government funds to cover the costs of its annual budget are raised through taxation of its citizens, fees collected from business, and borrowing against assets.

Monetary policy is the regulation of the money supply and interest rates in order to control inflation and stabilize currency. While fiscal policy is conducted by a nation's government, monetary policy is handled by the countries' central banks (which have varying amounts of independence around the world). In the United States the U.S. Federal Reserve is responsible for managing this process; in the Eurozone it's the task of the European Central Bank, or like RBI in India.

Country Analysis

Country analysis is a multipurpose tool that provides a way to sort out all the reams of economic data that are available on a nation. By using this analyst tool you possess the framework that global strategists use in the boardrooms of multinational corporations.

Managers have to be able to make predictions about a country's future if they think about expanding. A country analysis, as developed at the Harvard Business School, is a four-step process that attempts to organize all available economic, social, political, and geographic data for strategy development.

Step 1: Analyze the Past Performance
In a first step, management should analyze all available measures, e.g. the exchange rates, GNP, inflation, employment, investment, consumption, population growth, education level, etc.

Step 2: Identify the Country's Strategy
After analyzing the past performance, management should try to identify the main goals of the country's government (linked to productivity of the economy) as well as the fiscal, monetary, trade, and social policies.

Step 3: Analyze a Country's Context
In a third step management has to evaluate the "basic facts" about the country, e.g. several physical indicators (size, population, geography), political indicators (government type, stability, corruption) and International indicators (trade advantages, competitiveness).

Step 4: Make a Prediction
Now management should be able to combine all important information and make a prediction based on the steps 1, 2 and 3.

International Strategies

During the last decades, many barriers to International trade have fallen and a new wave of companies began pursuing global strategies to gain competitive advantages. Today, multinational corporations (MNC) have to deal with many cultural differences, languages and various legal and financial systems.

Driving Forces

International Business is not a new phenomena, trade across the globe is as old as business itself. A number of developments can be identified as driving forces of International business:

- The world wide movement towards liberalization, privatization and globalization is one important force that drives global integration. With the advent of MNCs culture, new opportunities have been accelerated for going global and taking the whole world as one big platform.
- Technology is a powerful, stateless and universal factor that crosses national and cultural boundaries.
- Revolutions in the field of transportation and communication have been able to reduce both time and cost barriers; making global business easier.
- Product development costs enable companies to recover investments by placing the product in varied markets.

However, businesses that intend to expand to new countries and markets still face many challenges since there are many factors that restrict International business expansion:

- Countries protect local enterprises by controlling market access. If the entry level is too high, companies will not be able to enter those markets. Also, trade blocs, like NAFTA, EU, or ASEAN allow free trade among member states but make it difficult for other companies to join.
- A very high amount of capital is required to become a player in the global market. Many firms are not able to take that risk.
- Instability in the exchange rate of domestic currencies restrict the growth of International business and political instability in specific geographic regions can hinder companies to expand to those countries.

International vs. Global

International strategies and global strategies are two categories. An *International strategy* means that subsidiaries around the world act independently and operate as if they were local companies. A *global strategy* involves a carefully crafted single strategy for the entire network of subsidiaries, encompassing many countries simultaneously and leveraging synergies across many countries.

There are three key differences between the global strategy and International strategy:

- ***Coordination from the center*** : An International strategy does not require strong coordination from the center. A global strategy, on the other hand, requires significant coordination between the activities of the center and those of subsidiaries.

- ***Product standardization*** : An International strategy assumes that the subsidiaries should respond to local business needs. In contrast, the global strategy assumes that the center should standardize its products in all the different countries.

- ***Strategy integration*** : The International strategy gives subsidiaries the independence to plan and execute competitive moves independently (based on the analysis of local rivals). The global strategy plans competitive battles on a global scale.

Major Reasons

Companies go International for a variety of reasons but the typical goal is company growth or expansion. There are three major reasons for going International: 1. to expand sales, 2. to reduce costs, and 3. to reduce risk. These are three major reasons why your company may want to decide to go International:

- **To expand sales by accessing new markets**: Larger markets mean the potential for greater profit, so companies go global to seek new business opportunities and to expand the range of goods and services that they offer.

- **To reduce costs**: Overseas operations are often attractive to firms seeking to reduce budgets in order to increase profit. For example, it is possible to cut business overhead costs in countries with lower costs of living.

- **To reduce risk**: Going global can reduce a company’s reliance on local and national markets. So downturns in consumer demand at home are offset by upturns in consumer demand in International markets.

Different Strategies

Foreign market entry strategies differ in degree of risk they present, the control and commitment of resources they require and the return on investment they promise. How do firms go International? There are six major types of entry modes:

- **Exporting** is the process of selling goods or services produced in one country to other countries. Firms can choose between "indirect exporting" (products are carried and sold abroad by agents) and "direct exporting" (the firm sells its products directly in foreign markets).
- By **licensing**, an International firm gives the licensee patent rights or know-how on products and processes. In return, the licensee will produce the products and pay the licensor fees usually related to the sales volume of the products.
- **Franchising** is similar to licensing. Semi-independent business owners (franchisees) pay fees to a parent company (franchiser) in return for the right to become identified with its trademark, to sell its products or services, and often to use its business format and system.
- In a **Joint Venture**, cooperating firms create an independent firm in which they both invest. This type of agreement gives the International firm better control over local market knowledge.
- A **strategic alliance** is a cooperative agreement between different firms, such as shared research or formal joint ventures. It usually between firms in high-industrialized nations and the focus is often on creating new products and technologies rather than distributing existing ones.
- A firm can also make **direct investments** in a production unit in a foreign market. It is the greatest commitment since there is a 100% ownership. Firms can make a direct acquisition in the host market or they can develop its own facilities (called Greenfield investment).

The market-entry techniques that offer the lowest level of risk and the least market control are export and licensing. The highest risk, but also the highest market control and expected return on investment are connected with direct investments.

In conclusion, International collaboration is a great opportunity…
– to combine resources (cross-border alliances are able to develop new products),
– to eliminate risks (companies are able to spread a risk on many shoulders), and
– to learn (firms are able to gain important knowledge from their partners).

Thank You

Day 05

Human Resource Management

— Introduction —

Welcome to **Human Resource Managemen**t ! Recruiting, selecting, hiring, and retaining competent employees as well as implementing the right internal structures and processes have always been essential for every organization. Human Resource Management (HRM) includes all management decisions that affect people within an organization. Today, in a business world shaped by globalization and technological revolutions, this task may be more important than ever before: businesses, human resource departments and managers have to react to those changes and must offer flexible strategies. It is important to understand that all management decisions have impacts on human resource management and therefore HRM should be linked to all organizational processes.

Organizational behavior (OB) is the study of how individuals and groups perform together within an organization. It focuses on the best way to manage individuals, groups, and organizations. Organizational behavior includes management, theories and practices of motivation, and the fundamentals of organizational structure and design. Knowledge about organizational behavior can provide managers with a better understanding of how their company can make its processes more effective and efficient, thus allowing the firm or organization to successfully adapt to changing circumstances.
From the smallest nonprofit to the largest multinational firm, all organizations have to manage human resources and organizational behavior.

Human Resource Planning

Managers have to develop a plan for how human resources will be needed to meet short- and long-term goals. If, for example, a company decides to open a new store, the human resource component is an essential part of the strategic planning.

Staffing Plan

Human resources planning starts by conducting an analysis of staffing needs. This could mean either assessing the current staffing requirements or projecting future requirements. In either situation there are several questions that need to be answered:

- What is the organization’s vision and what are the short-term and long-term goals?
- Can any major changes in the market impact the organization’s future?
- What changes in staffing, if any, are needed to support the overall vision?

A staffing plan involves evaluating the human capacity needed to meet the needs of the organization and estimating the number of people needed for each unit. This process does require a lot of experience and understanding of the specific business. Staff planning is a systematic process to ensure that an organization has the right number of people with the right skills to fulfill its business needs. If the managers are new to the company, a good benchmark would be comparing the number of employees needed in similar organizations or gathering some sort of useful statistics. Here are some signs that the current staffing needs are not well planned:

- Regular breakdowns in the process flows (like missed deadlines, increased returns, decreased customer loyalty, and regular administration mistakes)
- Frequent employee absenteeism and turnover caused by employees being over-stressed or having poor morale
- Regularly occurring overtime caused by employees being overworked. Overworking employees can lead to burnouts and increased costs in the long run.

Job Descriptions

Once a staffing plan is developed, job descriptions can be created. This process involves analyzing each job in the organization in order to generate job specifications, and then these are aggregated at a firm-wide level. Some thought should be put into them due to the nature of employees using job descriptions to define their actions.

The job analysis involves collecting information to form a complete understanding of what is necessary to perform the job. A job description lists the activities that the employee performs, as well as the skills and qualities that are needed to successfully meet the job objectives. Think of this stage of human resources planning as if you were a newly appointed sports coach.

Firstly, you would identify the positions you would need to complete the roster, secondly, the qualities you would like for each player, specific to each position.

Once the job analysis and job descriptions are determined, this information can then be aggregated to form a human resource inventory to track what skills and capabilities need to be filled in to complete the human resources requirements. When completed correctly, job descriptions can be a very important tool and can be used in many different functions, including:

- Giving employees a gauge of how they will be evaluated within the organization.
- Helping determine the compensation level for individual positions.
- Establishing hiring criteria for specific positions, and giving candidates responsibility expectations.

A typical outline of a job description includes:

A job description is an internal document that clearly states the essential job requirements, duties, responsibilities, and skills required to perform a specific role. A more detailed job description might even cover how success is measured in the role so it can be used during performance evaluations.

1. Job Title
Specific title that would be included in an organizational chart

2. Overall Description
A brief description of the responsibilities

3. Reporting To
List of person(s) to whom this position reports

4. Duties
A list of regular duties this position would be expected to perform

5. Requirements:
A list of mandatory or preferred requirements for the position

6. Criteria:
Specific skills, experience, and knowledge

Recruitment and Selection

Once the planning part of the process is completed, the organization will set forth to implement this plan through the next set of human resource concepts and tactics: recruitment, selection, appraisal, rewards, and employee development.

Recruitment

Recruitment is the process by which companies attract candidates to fill present and future positions, and the appropriate method varies from company to company. In most cases, the human resources department in the company will work together with managers in departments throughout the company to determine a recruitment method and approach. Many recruitment methods are available, including Internet and print advertisements, employee referrals, and outsourced agencies ("headhunter" executive placement firms, job placement agencies, etc.) that perform recruitment services for the company, either on

a fixed-fee arrangement, much like a consulting relationship, or on a performance-based basis where the fee is a percentage of the employee's salary. In some cases, the employee will pay the fees associated with such outsourced services, but more often the company will pay these fees. Other recruitment tactics include job fairs and college recruiting and might involve a combination of several methods.

There are two ways to fill a vacant position: by internal or external recruitment. Hiring from within the organization (internally) allows the manager to choose from a known pool of talent and can minimize misperceptions among candidates about the actual requirements of the position. In addition, hiring from within can be cost-effective and provide motivation for existing employees.

Generally, it is advisable to look outside the company (externally) when specific skills are required for the position and existing employees may not be reasonably expected to train for or learn these skills. The decision to look outside the company tends to be more appropriate when there is a specific need to fill, such as technical requirements. Hiring from outside also helps to avoid the ripple effect of frequent internal staffing changes and the employee "musical chairs" syndrome that does not give staff time to mature into their respective jobs. Finally, recruiting outside the company can be an effective way to import experience and creativity or new ways of doing things. This infusion of outsider perspectives and approaches can infuse the company with a fresh look at its processes and systems.

Outsourcing

In the past decade, the use of "employee leasing" and temporary, or project-based, outsourcing of human resource needs has become more prevalent. In this scenario, the company contracts with another company that provides the employees for a specific need or project. Outsourcing is an agreement in which one company contracts-out a part of their existing internal activity to another company. The upsides and downsides of outsourcing include:

Pros	Cons
• Reduced operating costs	• Employees feel intimidated
• Reduced work training costs	• Security problems
• Main sight on the business goals	• Loss of management and control

The contracted worker is an employee of the provider company, with the provider company responsible for payroll, employee taxes, benefits, and other employee-related expenses. The company hiring these contract employees is thus free of the associated bookkeeping and administrative costs of maintaining these employees on its payroll – it makes a single payment to the company from which it is leasing the employees, rather than paying the workers individually. These leasing or outsourcing arrangements are attractive to new or emerging companies or mature companies that may be experiencing an unusual spike in demand, or some other kind of nonrecurring event, presenting a solution for a company that needs to modify its workforce capacity with some upside or downside flexibility.

Selection

The recruitment process will result in a pool of candidates from which the organization has to select the right employee. This usually involves a combination of different selection methods. Interviews and reference checks are the most commonly used, but other methods are available depending on the specific demands of the position. For example, background checks are appropriate when a position requires that the employee has significant customer interaction or if the prospective employee has a fiduciary responsibility with the company. Other selection methods include:

- Skill performance tests/work samples– for example, a graphic artist may bring in a portfolio of past projects, or a data entry candidate may be given a simulated work assignment.
- Personality tests – used especially in customer contact recruitment and selection (e.g., salespersons and customer service candidates).
- Physical abilities tests – used in many job requirements where physical condition is an essential element in job productivity or success (e.g., a product installation or delivery job).
- Drug tests – an increasingly used tool to ensure selection of candidates who do not involve themselves in chemical or substance dependency.

Face-to-face interviews can be extremely revealing but must be well prepared. The goal of an interview should be to learn whether the candidate has the competencies and technical skills that are most critical to the job, and questions should be prepared for each area. The interviewer's questions should focus on behaviors, not opinions, and may involve asking applicants to provide examples from their past experiences. Interviews provide an opportunity to read body language and the applicants' ability to "think on their feet," often replicating the realities of life on the job. Additionally, to ensure good fit with the culture of the company, an initial interview is often followed up by several more representing the other employees with whom the potential hire may work, as well as company representatives at different levels and areas within the company. An important step in the interview process is to check on a prospective employee's past performances by making inquiries to former employers and references.

Four rules for more effective reference checks are:

- Ask the applicant to inform prior employers that you intend to contact them. Former managers are much more likely to provide useful information if they are aware beforehand that they will be contacted.
- Open the call by describing the corporate culture of the organization. This provides some context for the previous employer's comments on the previous employee.
- Reassure the previous employers that the information they provide will not determine the final hiring decision, but that your goal is to learn more about the prospective hire.
- Save formal questions such as dates of employment and title until the end of the call.

Training and Development

It is one thing to be able to recruit and hire good employees, but to help them attain their full potential is just as or even more important. That's why training and development is such an essential part of organizations today.

Orientation

Training should begin on day one of employment, with every employee given an orientation. Getting employees off to the right start is a very easy way to build a company that embraces learning and development. Most small companies do not have formal orientation programs, but rely on individuals finding their way when they first get hired. This seems to work fine in smaller organizations when there is more informal means of communication, but as organizations grow, most have found that formal orientation programs are necessary to get employees up to speed and productive in a timely fashion.

Formal orientation programs can range from an hour to several days, and the level of orientation usually depends on the level of the positions. Whereas entry-level or unskilled labor will need very little orientation, experienced professionals will need quite a bit more to get up to speed with the organization. Each organization needs to define its own orientation needs and programs. Assigning mentors is often done in place of an orientation program to give new employees a helping hand during the first few weeks on the job. At a minimum for small or large organizations, orientation programs should include:

- Detailed company history and overview of the current structure and products.
- Overview of employment policies and handbook (if applicable).

- Basics of compensation, benefits, and all other legal issues that arise.
- Health and safety issues.
- Information about business systems such as phone, e-mail, voice mail, and office equipment.
- Employee rewards and incentives.

On-boarding new hires at an organization should be a strategic process. How employers handle the first few days and weeks of a new employee's experience is crucial to ensuring high retention.

Skill Training

What are the main benefits of employee development and training? In general, training…

- increases the value and capacity of the human assets of the company,
- provides an alternative to recruiting, by having qualified personnel to fill vacant positions,
- creates potential future leaders of the company, and
- helps reducing employee turnover by keeping individuals motivated and interested in their positions with the possibility for advancement.

Skill training is exactly what it says – training employees on new skill sets. This could take many forms, including training on new software, customer service techniques, or even team-building exercises. Skill training has two main goals:

- to maintain employees' current skill level with ever-advancing technology and business practices, and
- to give employees the necessary skills to advance through the organization.

Every organization is going to have a unique set of skills required of its employees. Of course many skills transfer from organization to organization very easily, but the scope of skills is usually unique for every organization. Prior to implementing training, organizations need to follow a few basic steps:

- Conduct complete skill assessments, involve all levels of employees, develop core skill competencies for each position, and assess current gaps in the skill set.
- Choose the training source. Whether you choose outside consultants, assign internal trainers, or devise online training, the source has to be effective for the given skill set.
- Align training with the broad goals and objectives of the organization. This will help employees see the importance and be more likely to jump on board with the training.

- Conduct training during work hours (this will help keep a positive attitude toward the training) and in suitable facilities.
- Plan for feedback and assessment of all training programs.

Leadership Training

As organizations grow, adapt, and mature, there comes a time when existing managers and leaders will begin to think about stepping down and looking for replacements either inside or outside the organization. When this situation arises, managers often do not find suitable and qualified candidates with the right experience within the current organization. Managers typically find that internal candidates are very good at their current jobs but do not have the breadth of experiences it takes to manage teams or departments successfully. External candidates are also very experienced, but the right fit is very hard to find. One way to ensure that suitable replacements for top managers and leaders are available is to have a program or plan to develop leaders internally.

Leadership development programs are very common nowadays: the risk of not planning for the succession of current leaders is too much to bear for most organizations. That's why the leaders of an organizations should ask themselves the question "Would the organization be able to survive successfully if the CEO was the victim of a fatal accident?" If the answer to this question is no, it would be wise for management to address this issue. Leadership development programs take many forms, but they all have similar goals of providing certain employees with the necessary skills and experience to fill the shoes of top management in the future.

Leadership development programs involve scheduled job rotations with increased responsibility with every step. High-potential individuals are usually hired into the programs, mentors are assigned, and their progress is measured regularly. These programs usually span over several years. Of course, not every individual who enters the program is guaranteed a top management position. All program participants will have to prove themselves and take a proactive approach to develop themselves professionally; and hopefully when the time comes for management succession, there will be qualified candidates to choose from.

360-Degree Assessment

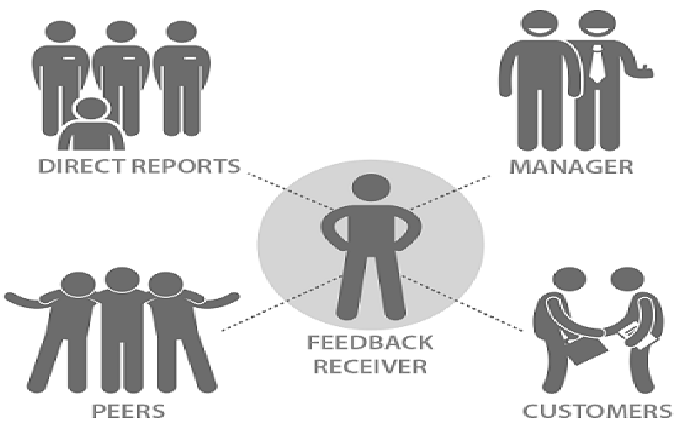
The 360-degree assessment (also known as 360-degree feedback) is a method of systematically collecting opinions about an individual's performance from a wide range of coworkers. This could include peers, direct reports, the boss, the boss's peers, or people outside the organization.

The 360-degree assessment is a commonly used tool in organizations as a way of giving and receiving feedback at all levels within the organization. Simply put, a 360-degree assessment is a system used to gather input on individual employees' performance, not

only from managers and supervisors, but from coworkers and from direct reports as well. Some companies also involve customers in a 360-degree assessment, especially in the case of customer-contact personnel.

Purpose

The 360-degree assessment is a commonly used tool in organizations as a way of giving and receiving feedback at all levels within the organization. Simply put, a 360-degree assessment is a system used to gather input on individual employees' performance, not only from managers and supervisors, but from coworkers and from direct reports as well. Some companies also involve customers in a 360-degree assessment, especially in the case of customer-contact personnel. Dell, the U.S.-based computer manufacturer, has used 360-degree assessment, and the results have led to substantial management policy changes, including forcing upper management to be more in touch with the daily operations and allowing for routine opportunities for management to interact with subordinates. The 360-degree assessment is a feedback process where not just your superior but your peers and direct reports and sometimes even customers evaluate you.



More traditional feedback tools, in which only the direct manager provides feedback, can very easily lead to a one-sided and incomplete employee review. The 360-degree assessment is much more likely to provide an accurate review and assessment of an employee's performance. Almost all large companies today use a form of the 360-degree assessment for their employees; sometimes it takes on a different name, such as full-circle or multi-source assessment. Here's how it works. Typically all employees are given the opportunity to rate and give comments on all employees they work with on a regular basis, including managers, peers, and subordinates. Each assessment includes several different categories for employee assessment – for example, leadership, performance management, communication, teamwork, integrity, quality, problem

solving, vision, trust, adaptability, and reliability. Each organization develops the assessment criteria based on what it feels is important. Once the assessment is complete, employees have the opportunity to view how their coworkers assessed their performance, and managers get to see how they are generally viewed by their subordinates.

Implementing the 360-degree assessment can sometimes be very difficult and can cause more harm than good if management is not careful. Giving feedback has to be done with caution given the sensitive nature of the data and the possible defensiveness of the employees who receive it. Some employees will not be comfortable giving frank feedback to their peers.

An organization needs to have a very high level of trust among the employees for this assessment to work effectively. If the level of trust is not established prior to the 360-degree evaluation, human tendencies such as protectiveness, revenge, and development of hierarchies take precedence and will skew the results, creating even more distrust within the ranks. If this trust level cannot be established, the 360-degree evaluation should be postponed to a later date.

Implementation

If a 360-degree evaluation has not been used previously in the organization, it is wise to introduce it as an internal program for personal improvement, not for management decisions. This will take the pressure off employees and allow for a more relaxed atmosphere during the process. Many large companies have the 360-degree assessment in place for more than a year before they are able to see any benefits from the program and use it to make decisions. Employees need to feel comfortable with the system before they will actually use it as a learning tool.

This can be achieved by following this 4-step-plan:

1: Start out with a test group
When first implementing the 360-degree evaluation, start out with one department or a small group of employees. The time and resources needed for a company-wide implementation could end up being substantial. Starting with a test group will provide insight on issues and problems that likely will arise and will limit the cost if the 360-degree evaluation does not work within the organization.

2: Link the 360-degree evaluation's goals with the overall company goals
The 360-degree evaluation needs full cooperation from all employees along with a significant business reason for the implementation. If the program is linked to the overall goals, individual employees will have an easier time accepting and providing value.

3: Train employees
The 360-degree evaluation may include hiring an outside firm to handle the process, or if it is handled internally, there need to be assigned roles and responsibilities. The employees who are responsible need to be trained on all aspects of the evaluation; they must ensure that complete trust is held throughout the process.

4: Turn the results into an action plan
Once the evaluation is complete, request ideas for an action plan from all employees. Hold meetings if necessary or provide other means for feedback opportunities. Ongoing goals and objectives need to be set for the future in order for everyone involved to feel that the program is effective and useful.

Questions that should be asked prior to implementing a 360-degree evaluation program include:

- How ready is the organization for the 360-degree evaluation?
- Who is going to be involved?
- Is this a mandatory or voluntary project?
- What criteria will be evaluated?
- How will the information be collected, compiled, and distributed?
- Who is going to be responsible for each activity, including planning, assessing, compiling the information, distributing the results, developing the action plan, and following through?

The 360-degree evaluation, if used correctly can be a valuable organizational tool that will provide a path for personal and organizational development. It can help direct and mold the corporate culture, set goals, and create camaraderie among employees.

Motivation and Satisfaction

Motivation is an important driver in any organization. It often determines how much effort employees will put into accomplishing their tasks and it is strongly tied to job satisfaction. Job satisfaction expresses how individuals feel about the tasks they are supposed to accomplish.

Maslow: Hierarchy of Needs
In 1943, the American psychologist Abraham Maslow developed a theory about human motivation called the hierarchy of needs. This theory is still very popular and describes human needs in five general categories. According to Maslow, once an individual has met his needs in one category, he is motivated to seek needs in the next higher level. Maslow’s hierarchy of needs consists of the following categories:

- Physiological needs: These are the first and lowest level of needs. They relate to the most basic needs for survival and include the need for food and shelter.
- Safety needs: The second level of needs involves an individual's need for security, protection, and safety in the physical and inter-personal events of daily life.
- Social needs: The third level of needs is associated with social behavior. It is based on an individual's desire to be accepted as part of a group and includes a desire for love and affection.
- Ego/Esteem needs: The fourth level of needs relates to an individual's need for respect, recognition, and prestige and involves a personal sense of competence.
- Self-actualization: This is the fifth and highest level of needs. Needs of this level are associated with an individual's desire to reach his full potential by growing and using his abilities to the fullest and most creative extent.

As individuals move higher in the corporate hierarchy, they may see higher-order needs as being more important than those of lower orders. Needs may also vary based on career stage, organizational structure, and geographic location. The hierarchy of needs could also lack effective application in different cultural contexts. Certain cultures may value social needs over psychological and safety needs. In addition, the theory necessitates that a manager be able to identify and understand an employee's needs. This is not always easy and can lead to inaccurate assumptions. Taken in the proper context, however, recognizing the importance of needs is a useful method for conceptualizing factors of employee motivation and thus being able to direct an organization's behavior. According to Maslow's hierarchy of needs, people are motivated to fulfill basic needs before moving on to other, more advanced needs.

Herzberg: Two-Factor Theory

In the 1950s Frederick Herzberg studied the characteristics of a job in order to determine which factors served to increase or decrease workers' satisfaction. His study identified two factors related to job satisfaction: "hygiene" factors and motivational factors.
Hygiene factors: These factors must be maintained at adequate levels. They are related more to the environment in which an employee is working rather than the nature of the work itself. Important hygiene factors include organizational policies, working conditions, relationships with peers and subordinates, status, job security, and salary. Adequate levels of these factors are necessary to prevent dissatisfaction; improving these factors beyond adequate levels, however, does not necessarily lead to an increase in job satisfaction.

Motivational factors:

These set of factors are associated with having a direct effect on increasing job satisfaction. These factors include achievement, recognition, responsibility, growth, the work itself, and the opportunity for advancement.

Like Maslow's hierarchy of needs, Herzberg's factors must be tempered by sensitivity to individual and cultural differences and require that managers identify what employees consider to be "adequate levels." Managers sometimes simplify both of these theories and inappropriately assume that they know what their employees need. Herzberg's two-factor theory states that there are certain factors in the workplace that cause job satisfaction, while a separate set of factors cause dissatisfaction.

McGregor: Theory X and Theory Y

Douglas McGregor's theories focus less on employee needs and more on the nature of managerial behavior. These theories are based on the assumption that a supervisor's perceptions of her employees will strongly influence the way in which she attempts to motivate her employees. McGregor created two theories based on his studies, called *Theory X and Theory Y.*

In the case of *Theory X*, a supervisor assumes that her employees are adverse to work and will do everything they can to avoid it. Acting on this assumption, the supervisor will exert tight control over employees, monitor their work closely, and hesitantly delegate authority. In this case of *Theory Y,* a supervisor assumes that, contrary to *Theory X,* workers are willing to work and would be willing to accept increased responsibilities. In light of these assumptions, the supervisor will provide employees with more freedom and creativity in the workplace and will be more willing to delegate authority

Managers will seek to motivate their employees based on their perceptions of the employees' interests. This theory brings to light the variation in practice that can exist depending on the assumptions that managers make about their employees. McGregor developed two motivation theories and they refer to two styles of management – authoritarian *(Theory X)* and participative *(Theory Y).*

Conclusions from Theories

The three theories discussed can provide valuable insight into an organization's behavior. The following three conclusions can be drawn from them:

Needs:
Employees have needs. In order to motivate employees, supervisors should attempt to understand the breadth of their employees' needs. This is not always an easy task and requires open and frequent communication between managers and employees. By structuring a job so that it meets these needs a supervisor can increase an employee's motivation.

Compensation:
Compensation is an important part of motivation, with a goal to compensate employees according to the contribution each employee makes to the firm. Employees will be dissatisfied if they feel that they are getting less than they deserve. In order to decrease the likelihood of perceived inequities, a manager needs to be proactive and informative regarding reward structures.

Rewards:
Employees need to know that the goal they are working toward is achievable and that when they accomplish this goal that they will be rewarded in an appropriate and timely manner.

Compensation and Rewards

The insights drawn from the discussion of motivational theory highlight the importance of assessing needs, compensation, and rewards when creating an organizational structure. Some of these actions include implementing an adequate compensation program, increasing job security, allowing for flexible work schedules, and establishing employee involvement programs.

Compensation Programs

Before determining how compensation should be set, it is necessary to align the compensation program with several elements of the business:

- Business goals: A compensation plan should be developed in light of a firm's business goals. Employees should be compensated to the degree that their efforts help the business accomplish its goals.
- Employee goals: A compensation plan should be clear in stating individual employee goals. In order to effectively motivate employees, they need to know what goals they will be expected to achieve.
- Achievable goals: The goals that individual employees are expected to accomplish must be realistic and achievable. If employees feel that the goals associated with their positions are unreachable, they will not be motivated to work. If a supervisor can set reasonable goals and make he employee aware that numerous achievable bonuses will be given if these goals are met, the employee will be motivated.
- Employee input: Employees will be more satisfied with their jobs if they are consulted about the compensation plan before it is put into effect.

An adequate compensation program, taking these issues into account, will affect employee motivation; a compensation plan should give the highest relative raises to the individuals who achieve the highest levels of performance. This type of system is referred to as a merit-based pay system and bases pay on performance. It can be effectively implemented in conjunction with an incentive plan that rewards employees for achieving specific performance goals. These plans stand in contrast to a system that provides across-the-board pay raises, which will not motivate workers to put extra effort into achieving set goals.

Job Security

Employees who feel they are in danger of losing their jobs may not show high work productivity. Worker satisfaction can, and productivity may, be increased by providing job security. One way firms can increase job security is by providing cross-training in

other functions. This will give employees the versatility to accomplish new tasks if their current positions change or are no longer available.

Flexible Work Schedules

In today's time-pressed world, many employees view time away from work as an important factor shaping their at-work motivation and on-job productivity. There are several methods for allowing flexible work schedules that meet the needs of employees seeking greater home/work flexibility.

A common approach towards more flexible work schedules is the so-called compressed workweek. This approach enables employees to work the same number of hours over the course of fewer days. Instead of working five eight-hour days, an employee might work four ten-hour days instead. Other examples of flexible work schedules include job sharing where two or more people share a certain work schedule.

Employee Involvement

Employee involvement programs seek to motivate employees by increasing their responsibilities or getting them more involved in decision-making processes. There are several types of employee involvement programs; the more basic programs include job enlargement, job rotation, and teamwork. More ambitious programs include open-book management and worker empowerment.

- Job Enlargement: Job enlargement is a direct way to increase job responsibility. It involves expanding a position and giving an employee a greater variety of tasks.
- Job Rotation: A job rotation program periodically reassigns employees to new positions. In addition to increasing employees' involvement in the firm and adjusting their responsibilities, job rotation can also improve employees' skill sets, thereby increasing their job security. In addition, it can also relieve the boredom in the workplace associated with doing the same job over a long period of time.
- Teamwork: This program attempts to increase motivation by putting individuals with different positions onto a team and setting them the task of achieving a specific goal. Teamwork serves to increase an employee's responsibilities and involvement in the firm. The best types of teams are self-directed. This provides the team with the authority to make decisions regarding planning, accomplishing, and evaluating the task they are working on.
- Open-Book Management: Open-book management is a challenging, but direct way of increasing employee involvement and responsibility. It involves allowing employees to see how their job performance affects key performance indicators important to the firm. In order to institute this program a firm needs to make key indicators available to employees and educate them on how to interpret key performance measures. Employees also need to be empowered to make decisions related to their positions and

training and be given the opportunity to see how these decisions affect the rest of the firm. Open-book management also necessitates an adequate compensation program whereby compensation is tied to performance.

- Worker Empowerment: Worker empowerment attempts to increase employee job responsibility as well as employee involvement. It does this by giving employees more authority and involving them in the decision-making process. Employees who are empowered can often make better and more informed decisions than can a manager who is not directly involved in the process.

Participative management is similar to worker empowerment. Although it does not provide employees with direct decision-making power, it encourages managers to consult closely with workers before making decisions. Another type of participatory management is management by objective. This approach allows employees to set their own goals and provides them with the freedom to decide how they can best achieve these goals.
But how do managers (after gaining an understanding of the theories of motivation and applying different approaches to increase job satisfaction) know that their efforts have been successful? In practice, a manager must draw conclusions on a daily basis from social observations and interactions in the workplace.

Sometimes, however, it is a good idea to conduct a more formal survey. This can be accomplished through either interviews, surveys, or focus groups that often involve only a specific group of employees. Two useful surveys are the Minnesota Satisfaction Questionnaire and the Job Descriptive Index. Both of these surveys address areas of employee satisfaction in regard to different aspects of an organization and provide managers with useful information. They cover work, working conditions, rewards, opportunities for advancement, and the quality of relationships with managers and coworkers.

Organizational Structure

Whether you are in the beginning stages of starting your own business or you are looking for ways to improve an existing business, it is important to think about the firm's organizational structure. Who is responsible for accomplishing various tasks within the firm? How are these individuals grouped? Who manages them and how are they managed?

Five Structural Factors

In essence, the primary goal of an organizational structure is to coordinate and allocate a firm's resources so that the firm can carry out its plans and achieve its goals and objectives. The fundamentals of organizational structure revolve around five factors.

1. **Division of Labor**
   The division of labor involves two steps: dividing work into separate tasks and assigning these tasks to workers. What are the different tasks carried out by your firm? Who is responsible for accomplishing these tasks?

2. **Departmentalization**
Departmentalization is the process of grouping similar types of jobs together so that they can be accomplished more efficiently and effectively. There are five different ways in which to departmentalize business activities. Different types of departmentalization can exist to varying degrees within a business. What types of departmentalization exist within your firm? Could your firm be departmentalized differently?

- **Function**: An example of functional departmentalization would be a firm that has a marketing and finance department. It involves grouping tasks based on the function that the organizational unit accomplishes within a firm.
- **Product:** A consumer electronics firm that has separate departments for camera and MP3 players is using product-based departmentalization. In this case departments are based on the goods or services that an organizational unit sells or provides.
- **Process:** A manufacturing firm that includes separate departments for assembly and shipping is an example of a firm with process-based departmentalization. In this case departmentalization revolves around the production process used by the organizational unit.
- **Customer:** A bank with separate departments for its business customers and individual customers is using customer-based departmentalization. Its departmentalization is based on the type of customer served.
- **Geographic:** An example of a firm using geographic departmentalization is an automobile manufacturing company that has different departments for each country in which it sells cars. In this case departmentalization is based on the geographic segmentation of organizational units.

3. **Managerial Hierarchy**
Managerial hierarchy relates to the way in which management is layered. It usually includes three levels – upper or top management, middle management, and supervisory roles. The higher levels of management generally have fewer employees, but more power.

4. **Span of Control**
Span of control is closely related to managerial hierarchy. At each level of management within a firm an individual is responsible for a different number of employees. Span of control relates to the number of employees that a manager directly supervises.

Span of control is determined by a number of factors, including the type of activity, the location of the workers, a manager's ability to delegate tasks, the amount and nature of communication between the manager and the individuals being supervised, and the skill level and motivation of the individuals being supervised.

5. **Centralization vs. Decentralization**
   Centralization is the degree to which formal authority is centralized within a unit or level of an organization. Decentralization is the process of actively shifting authority lower in a firm's hierarchical structure. This effectively gives more decision-making power and responsibility to those in supervisory roles. Centralization and decentralization have their benefits and costs.

While centralization provides top-level managers with a better overview of operations and allows for tighter fiscal control, it can result in slower decision making and limit innovation and motivation. Decentralization, by contrast, can speed up decision making and increase motivation and innovation, but this is done at the expense of a top manager's view of the firm and financial control.

Mechanistic vs. Organic Structures

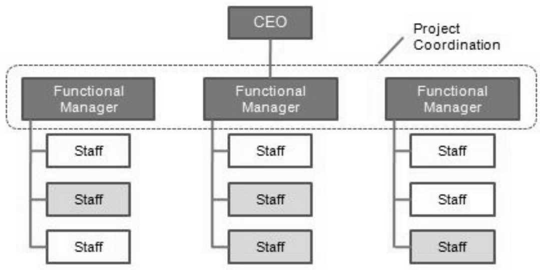
The five structural factors just discussed give rise to numerous organizational possibilities. Mechanistic and organic structures are two possibilities at opposite ends of the organizational spectrum. They give shape to the concept of the factors of organizational structure. A mechanistic organization is characterized by the following structural factors:

- Degree of work specialization is high.
- Departmentalization is rigid.
- Managerial hierarchy has many layers.
- Span of control is narrow.
- Decision making is centralized.
- Chain of command is long.
- Organizational structure is very tall.

An organic organization is characterized by the following factors:

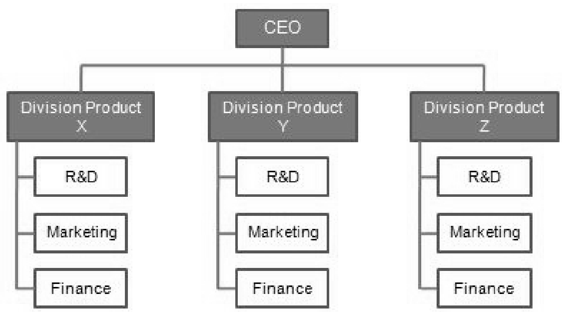
- Degree of work specialization is low.
- Departmentalization is loose.
- Managerial hierarchy has few layers.
- Span of control is wide.
- Decision making is decentralized.
- Chain of command is short.
- Organizational structure is flat.

Functional vs. Divisional Structures



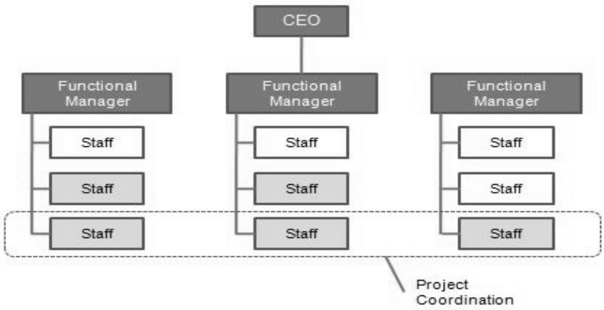
1. Functional Structure

The organization is divided into segments based on the functions when managing. This allows the organization to enhance the efficiencies of these functional groups. Functional structures appear to be successful in large organization that produces high volumes of products at low costs. The low cost can be achieved by such companies due to the efficiencies within functional groups. However, there can be disadvantage from an organizational perspective if the communication between the functional groups is not effective and an organization may find it difficult to achieve some organizational objectives at the end.



2. Divisional Structure

These types of organizations divide the functional areas of the organization to divisions. Each division is equipped with its own resources in order to function independently. There can be many bases to define divisions. Divisions can be defined based on the geographical basis, products/services basis, or any other measurement. As an example, take a company such as General Electrics. It can have microwave division, turbine division, etc., and these divisions have their own marketing teams, finance teams, etc. In that sense, each division can be considered as a micro-company with the main organization.



3. Matrix Structure

When it comes to matrix structure, the organization places the employees based on the function and the product. The matrix structure gives the best of the both worlds of functional and divisional structures. In this type of an organization, the company uses teams to complete tasks. The teams are formed based on the functions they belong to (ex: software engineers) and product they are involved in (ex: Project A). This way, there are many teams in this organization such as software engineers of project A, software engineers of project B, QA engineers of project A, etc.

Every organization needs a structure in order to operate systematically. The organizational structures can be used by any organization if the structure fits into the nature and the maturity of the organization. In most cases, organizations evolve through structures when they progress through and enhance their processes and manpower. One company may start as a pre-bureaucratic company and may evolve up to a matrix organization.

High-Performance Organizations

The goal of the high-performance organization is to effectively and efficiently utilize intellectual capital. High-performance organizations focus on employee involvement, teamwork, organizational learning, total quality management (TQM), and integrated production techniques.

- Employee involvement is accomplished through worker empowerment or participative management.
- Teamwork is accomplished though self-directed groups.
- Organizational learning involves gathering, communicating, and storing organizational information in order to anticipate changes and challenges and make more informed decisions about the future.
- TQM focuses on high quality, continuous improvement, and customer satisfaction.

- Integrated production techniques implement flexibility in manufacturing and services and involve job design and information systems to more effectively and efficiently utilize the resources, knowledge, and techniques that a business uses to create goods or services. It stresses the use of just-in-time production and service systems and relies heavily on computers to assist, control, and integrate different organizational functions. Implementing integrated production techniques requires speeding up communication and decision making within the organizational structure.

The process of transforming an organization into a high-performance organization begins by actively seeking to understand an organization's work site problems and opportunities and its purpose, mission, strategy, and vision. These elements must be tied together into a new mission statement and vision for the firm that is aligned with the organization's core values. In order to be successful, this process requires the active involvement of individuals from various levels and groups within the organization. The broad level of participation will also ensure a greater level of acceptance in the organization. Once these initial steps have been taken, the factors of employee involvement, teamwork, organizational learning, total quality management, and integrated production techniques can result in organizational, individual, and community benefits.

The organization will be more effective in achieving its goals, job satisfaction and employee motivation will increase, and the organization will be better able to contribute to the community as a whole. Although there are numerous benefits associated with high-performance organizations, establishing and maintaining them is a difficult task. Successfully creating a high-performance organization requires a high degree of cooperation and a strong level of commitment and acceptance from all employees. It is a challenging and difficult process, but it offers significant rewards throughout the organization. One of the most daunting elements is successfully integrating employee involvement, teamwork, organizational learning, total quality management, and integrated production techniques.

These are not separate functions; teamwork must contain elements of employee involvement, organizational learning, and total quality management. This can be especially challenging for managers who, in addition to their regular functions, are asked to implement these changes. Managers can experience many kinds of resistance. Employees may feel that the changes could put them out of a job. They may be resistant to participating in group decision making or in team-based activities. Managers may also experience obstacles related to cultural differences regarding hierarchy and participation. In light of these challenges, some firms succeed in implementing only some of the elements associated with high-performance organizations.

Organizational Culture

An organizational culture, also called corporate culture, is the system of beliefs, goals, and values that an organization possesses. Strong cultures create high levels of employee motivation and loyalty. Corporate culture also provides control and structure to the company.

Leadership Styles and Culture

Individual managers have their own styles of managing, and within organizations there is often a predominant style of leadership which is often deeply rooted to the corporate culture. The four predominant leadership styles – autocratic, democratic, laissez-faire, and transformational – have many variations. We can compare the effectiveness of each of these styles as it affects employee performance.

1: Autocratic Leadership
This style of leadership is directive and controlling. The leader will make all decisions without consulting employees. The autocratic style of leadership limits employee freedom of expression and participation in the decision-making process. It will not serve to create trust between managers and subordinates. Further, creative minds cannot flourish under autocratic leadership. Autocratic leadership may best be used when companies are managing less experienced employees. But managers should not use the autocratic leadership style in operations where employees expect to voice their opinions.

2: Laissez-Faire Leadership
This style of leadership makes employees responsible for most of the decisions that are made. This form requires extensive communication. Laissez-faire leadership may best be used when employees are educated, knowledgeable, and self-motivated. Employees must have the drive and ambition to achieve goals on their own for this style to be most effective. Laissez-faire leadership is not a good idea in situations where employees feel insecure.

3: Democratic Leadership
This style of leadership is centered on employee participation and involves decision making by consensus. The leader will involve employees in the decision-making process and they will be encouraged to give input and delegate assignments. Democratic leadership often leads to empowerment of employees because it gives them a sense of responsibility for the decisions made by management. Democratic leadership may best be used when working with highly skilled employees. It is most useful for implementing organizational changes and when the leader requires input from knowledgeable employees. One of the down-sides of democratic leadership is that it may lead to endless meetings.

4: Transformational Leadership
Leaders who have a clear vision and are able to articulate it effectively to others often characterize this style of leadership. Transformational leaders look beyond themselves in order to work for the greater good of everyone. This type of leader will bring others into the decision-making process and will allow those around them opportunity to learn and grow as individuals. They seek out different perspectives when trying to solve a problem and are able to instill pride into those who work under them. Transformational leaders spend time coaching their employees and learning from them as well.

As with many categories that describe business concepts, an organization and its leadership may apply any or all of these leadership styles. For instance, a company may utilize autocratic leadership style with the lower levels but employ a democratic leadership style with its professional staff in the upper levels. The most effective leadership style is using a combination of styles. Leaders should know when it is best to be autocratic and when to be democratic.

Successful Culture

Culture creates a sense of order, continuity, and commitment that permeates every aspect of the organization, from how employees interact to customer perceptions.
Culture is often difficult for an organization to articulate, but its impact is far reaching and influences management, process, products, employee attraction and retention, productivity, reputation, and ultimately the bottom line. We will now look at seven important characteristics of successful corporate cultures. Characteristics of successful corporate cultures include: caring, challenge, risk, ethics, focus, trust, and merit.

Caring:
This involves employees taking responsibility for their actions, caring about both the customer and the good of the company. It creates high-quality customer service and a positive atmosphere in which to work.

Challenge:
If the CEO of a company states that employees should "think outside the box," but then squashes ideas because of their perceived chance of failure, a contradictory environment is created. In this type of situation, a challenge to conventional thinking and performing causes employees to fear losing their jobs; creative employees will leave and a culture of yes-men will be created.

Risk:
A successful company will be able to manage risk and even turn it into a strategic and profitable advantage. It involves paying attention to reputation and earnings. Employees must anticipate the consequences of their decisions and actions. This type of risk management can add significant shareholder value.

Ethics:
Often ethics can be the glue that holds the culture of an organization together. An effective leader should create a written ethical code for the organization. This code of ethics should not only be enforced but continuously reinforced. The employee's ethics should serve as a standard by which performance is evaluated.

Focus:
A leader has done his or her job well if the managers have a sense of continuity, if they know where the company or organization is heading. If managers feel that the direction of the organization is decided on by which way the wind is blowing that day, goals will not be met. It is important for employees to know where they are going and what they should be achieving, and it is the job of the leader to define this for them.

The leader should always know where he or she is going at all times. However, this does not mean that a leader should not be willing to change. In fact, a leader should be an agent for change, because stagnation does not often lead to success. It is important that while being accepting to change a leader is able to align employees with goals.

Trust:
Mutual trust is an important hallmark of effective leadership. Management should trust the leader and the leader should trust management. It is important to note that micromanaging can kill the trusting culture. When employees come to trust one another, it creates a team environment, where everyone is working for the common goals of the organization.

Merit:
Organizations often meet their goals by rewarding employee performance based on merit. Merit systems create fairness and help to further foster a team environment.

Methods of Control

Managers achieve organizational goals by managing intellectual capital in order to get the most out of organizational resources. An important part of this process is monitoring performance and outcomes. Two of the more common ways that directly affect organizational behavior are output controls and process controls. Controls relate to setting standards, obtaining measurements of results related to these standards, and taking corrective actions when these standards are not met. Managers must be judicious in their use of controls so as not to overburden the organization.

Output Controls

Output controls are about setting desired outcomes and allowing managers to decide how these outcomes can best be achieved. Output controls promote management creativity and flexibility. This type of control serves to separate methods from outcomes and subsequently decentralizes power by shifting it down the hierarchical structure.

Process Controls

Once effective methods have been determined for solving organizational problems, managers sometimes institutionalize them in order to prevent the problem from recurring. These types of controls are called process controls and are a way of regulating how specific tasks are conducted. Three types of process controls are (1) policies, procedures, and rules; (2) formalization and standardization; and (3) total quality management controls.

- Policies, Procedures, and Rules: These are often used in the absence of direct management control. Policies are general recommendations for conducting activities, while procedures are a more focused set of guidelines. Rules are the strictest set of limits and establish things that should and should not be done.

- Formalization and Standardization: Formalization involves creating a written set of policies, procedures, and rules that simplifies procedures in order to guide decision making and behavior. Standardization is the degree to which the actions necessary to accomplish a task are limited. It attempts to make sure that when certain tasks are carried out they are carried out in a similar fashion.
- Total Quality Management Controls: The previous methods of process control are based on organizational experience. TQM management controls differ in that they are based on an ongoing statistical analysis of a firm's operations. TQM involves all levels of management and has proved to be the most effective when it is instituted in an organization that has clearly defined outcomes and is done in conjunction with employee empowerment or participatory management programs.

Conclusion

Recruiting, selecting, hiring, and retaining competent employees as well as implementing the right internal structures and processes have always been essential for every organization.

Thank You

Day 06

Finance and Accounting

—Introduction—

Welcome to **Finance and Accounting** ! Accounting is often called the language of business, because it is used by managers to communicate the firm's financial information. Understanding finance and accounting allows you to present your ideas persuasively and precisely, and to be more comfortable when discussing results or forecasts with your financial staff or outside investors. It helps you understand the financial news and how financial markets can affect your own firm. And it helps you make better decisions about your personal finances and investments. Accounting has been called *the language of business* and finance is the application of that language to business activities and decisions.

Basics of Accounting

Accounting or accountancy is the measurement, processing, and communication of financial information about economic entities – such as businesses and corporations. Accounting, also called the "language of business", measures the results of an organization's economic activities. Accounting or accountancy is the measurement, processing, and communication of financial information about economic entities such as businesses and corporations.

"Accounting is the art of recording, classifying, and summarizing, in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof." – **American Institute of Certified Public Accountants (AICPA)**

Even in a shifting corporate and business landscape, accounting remains constant. Organizationally, financially, and legally, accounting is a core department in any organization, and the need for a highly trained accounting team is absolutely essential. Accounting is a dual discipline. Any accounting student needs to understand the differences between financial and managerial accounting, two separate branches of the trade that share similarities yet also have crucial differences regarding principles, methods, and applications:

- **Financial accounting** provides information to people outside the business entity and it provides information to both current and potential shareholders, creditors such as banks or vendors, financial analysts, economists, and government agencies.

- **Management accounting** (managerial accounting) concentrates on reporting to people inside the business entity and it is used to provide information to employees, managers, owner-managers, and auditors.

Accounting is not a foreign language, understood only by those who have studied it for years. Everyone who functions in today's society has a basic understanding of the principles of finance. The daily transactions of comparing prices, writing checks to pay for purchases, using credit cards, and maintaining a bank account are all financial management activities. Managing the financial activities of a business are a logical extension of understanding and managing your personal financial activities, as you can see in the following table:

	Business	**Personal**
Revenue	Sales	Salaries/wages
Expenses	Cost of sales & operating costs	Household & personal costs
Profit	Difference between sales and costs	Savings
Loss	When costs exceed sales	When costs exceed salaries
Source of financing	Banks & investors	Banks

Financial management comprises the tools and capabilities used to produce monetary resources and the management of those monetary resources. The language of finance allows different businesses to compare monetary results. Whether the business makes cars or sells hamburgers, people can describe the results in monetary terms. In order to take part in this discussion, it's important to understand the words and concepts that people use. Throughout this course we employ the vocabulary of accounting and finance.

Accounting Principles

Accounting rests on a rather small set of fundamental principles. People often refer to these fundamentals as Generally Accepted Accounting Principles (GAAP). These standards vary across the globe and are typically overseen by some combination of the private accounting profession in that specific nation and the various government regulators. Here we will highlight the eight most important principles:

1. **Revenue Principle**
   The revenue principle, also known as the realization principle, states that revenue is earned when the sale is made, which is typically when goods or services are provided. A key component of the revenue principle, when it comes to the sale of goods, is that revenue is earned when legal ownership of the goods passes from seller to buyer. Note that revenue isn't earned when you collect cash for something.

2. **Expense Principle**
   The expense principle states that an expense occurs when the business uses goods or receives services. As is the case with the revenue principle, if you receive some goods, simply receiving the goods means that you've incurred the expense of the goods. Similarly, if you received some service, you have incurred the expense. It doesn't matter that it takes a few days or a few weeks to get the bill. You incur an expense when goods or services are received.

3. **Matching Principle**
   The matching principle is related to the revenue and the expense principles. The matching principle states that when you recognize revenue, you should match related expenses with the revenue. For example, if you own a hot dog stand, you should count the expense of a hot dog and the expense of a bun on the day you sell that hot dog and that bun. In other words, match the expense of the item with the revenue of the item.

4. **Cost Principle**
   The cost principle states that amounts in your accounting system should be quantified or measured by using historical cost. For example, if your business owns a building, that building shows up on your balance sheet at its historical cost; you don't adjust the values in an accounting system for changes in a fair market value.

5. **Objectivity principle**
   The objectivity principle states that accounting reports should use objective and verifiable data. In other words, accounting systems and accounting reports should rely on subjectivity as little as possible. An accountant always wants to use objective data (even if it's bad) rather than subjective data (even if the subjective data is arguably better).

6. **Continuity Assumption**
   Accounting systems assume that a business will continue to operate in the future. Unless there is evidence to the contrary, the accountant assumes that the business will continue to operate indefinitely. If a business won't continue, it becomes very unclear how one should value assets if the assets have no resale value.

7. **Unit-of-Measure Assumption**
   The unit-of-measure assumption assumes that a business's domestic currency is the appropriate unit of measure for the business to use in its accounting. For example, the unit-of-measure assumption states that U.S. businesses should use U.S. dollars and European businesses should use Euro in their accounting.

8. **Separate Entity Assumption**
   The separate entity assumption states that a business entity is separate from its business owner. The separate entity assumption enables one to prepare financial statements just for the sole business.

Accrual vs. Cash Accounting

There are two kinds of accounting – cash accounting and accrual accounting. The difference between the two types of accounting is when revenues and expenses are recorded:

- In cash accounting, revenues are recorded when cash is actually received and expenses are recorded when they are actually paid – no matter when they were actually invoiced.

- In accrual accounting, on the other hand, revenues and expenses are recorded when they are earned, regardless of when the money is actually received or paid.

Let's see an example to understand the difference between the two methods:
A business sells a computer at the end of January and the customer pays by credit in the beginning in February. Using accrual basis accounting the revenue is recorded immediately (in January). Using cash basis accounting the revenue would be recorded when the credit payment was received (in February). Using cash basis accounting, income is recorded when you receive it, whereas with the accrual method, income is recorded when you earn it.

The Advantage of Cash Accounting
The advantage of cash-based accounting is simplicity – it is much easier to manage cash flow in real time by merely checking the bank balance rather than having to examine accounts receivable and accounts payable.

The Advantage of Accrual Accounting
However, while cash-based accounting can give a point-in-time picture of the business cash flow, accrual-based accounting gives a more accurate picture of the longer term state of the business – revenue and expenses are immediately recorded, allowing the business to more properly analyze trends and manage finances. This method is more commonly used than the cash method.

Bookkeeping

Bookkeeping is the recording of financial transactions, and is part of the process of accounting in business. Transactions include purchases, sales, receipts, and payments by an individual person or an organization/corporation. There are several standard methods of bookkeeping, the most important one is the double-entry bookkeeping system.

Journal Entries

Let's take a look at an example now. The following table features three journal entries:

Date	Account & Description	Ref	Debit	Credit
20XX				
Aug. 1	Cash Notes Payable Borrowed $50,000		50,000	 50,000
Aug. 3	Equipment Cash Purchased equipment		30,000	 30,000
Aug. 6	Vehicles Notes Payable Cash Purchased a truck		20,000	 18,000 2,000

What information can we find in these three journal entries? The first entry shows that $50,000 of cash were borrowed. The second entry shows that equipment of $30,000 was bought in cash. The third one shows that a vehicle was acquired for $20,000. $2,000 of which were paid in cash and $18,000 were borrowed.

Bookkeeping is the recording of financial transactions (sales, purchases, receipts and payments). A bookkeeper, also known as an accounting clerk, is a person who records these day-to-day financial transactions of an organization in the form of journal entries. Without a sound bookkeeping system, all of finance is really only guesswork. No financial planning can take place if the books and records from which information is drawn are not reliable. All your accounting journal entries are aggregated into the general ledger. This information is then used to construct financial statements as of the end of a reporting period.

Debits and Credits

Most people are familiar with debit and credit outside the context of accounting. We have debit cards and credit cards that allow us to spend money directly from our checking account (debit cards) or from our line of credit with our bank (credit cards). In this sense, debits are viewed as money drawn from our bank account, and credits are viewed as money available to spend or borrow from the bank. This is how debits and credits are represented on your bank account statement.

Business transactions are events that have a monetary impact on the financial statements of an organization. When accounting for these transactions, we record numbers in two accounts, where the debit column is on the left and the credit column is on the right.

- A **debit** is an accounting entry that either increases an asset or expense account, or decreases a liability or equity account.
- A **credit** is an accounting entry that either increases a liability or equity account, or decreases an asset or expense account.

Whenever an accounting transaction is created, at least two accounts are always impacted, with a debit entry being recorded against one account and a credit entry being recorded against the other account. There is no upper limit to the number of accounts involved in a transaction – but the minimum is no less than two accounts. The totals of the debits and credits for any transaction must always equal each other, so that an accounting transaction is always said to be "in balance." After you have identified two or more accounts involved in a business transaction, you must debit at least one account and credit at least one account.

Double Entry Accounting

Double entry accounting, also called double entry bookkeeping, is the accounting system that requires every business transaction or event to be recorded in at least two accounts. Every debit that is recorded must be matched with a credit. In other words, debits and credits must also be equal in every accounting transaction and in their total.

Every modern accounting system is built on the double entry bookkeeping concept because every business transaction affects at least two different accounts. For example, when a company takes out a loan from a bank, it receives cash from the loan and also creates a liability that it must repay in the future. This single transaction affects two accounts – the asset accounts and the liabilities accounts.

Accounting Equation

The accounting equation, also called the balance sheet equation, is the most important accounting formula. It represents the relationship between the assets (what a business owns), liabilities (what it owes to others), and owner's equity (the difference between assets and liabilities). It says:
Assets = Liabilities + Owners' Equity. What does this mean?

Assets
An asset generally is anything in a business that has some sort of financial value and can be converted to cash. The products you have stocked in your warehouse are assets (they're converted into cash as you sell them) – along with the cash in your register and all the equipment in your firm.
Assets come in two different flavors; these categories represent how quickly assets can be converted into cash:

- Current assets are assets that can be converted into cash within one year (like checks or invoices). Assets that you can quickly convert into cash also are known as liquid assets; and the speed by which you can convert assets into cash is called *liquidity*.
- Fixed assets are assets that take more than a year to be converted into cash. In most cases property, plants and equipment are fixed assets.

These are the most common business assets:

- Cash: Cash includes money and money equivalents such as checks, money orders, or bank deposits.
- Accounts receivable: "Accounts receivable" represent the money that your clients and customers owe you for purchasing your products or services. When you allow a customer to buy your goods today and pay later, you're creating a receivable. If you work strictly on a cash basis (e.g. at a hot dog stand), you don't have any receivables, and this item will be zero.
- Inventory: Inventory comprises the finished products that you purchase or manufacture to sell to customers, as well as raw materials, work in process, and supplies used in operations. If you run a grocery store, your inventory consists of every item on display for sale in your store.

- Prepaid expenses: When you pay for a product or service in advance, you create an asset known as a "prepaid expense". Examples include a prepaid maintenance contract on a typewriter, an insurance policy with a one-year term paid in advance, and an agreement for security-alarm monitoring paid in advance on a quarterly basis.

- Equipment: Equipment is the wide variety of property that your organization purchases to carry out its operations. Examples include desks, chairs, computers, electronic testing gear, forklifts, and lie detectors.

- Real estate: Real estate includes assets such as the land, buildings, and facilities that your company owns, occupies, and utilizes. Some companies have little or no real estate assets, and others have sizable ones.

Liabilities

Liabilities are money owed to others outside your organization. They may include the money you owe to the company that delivers your office supplies, the payments you owe on the construction loan that financed your warehouse expansion, or the mortgage on your corporate headquarters building. In short, assets put money in your pocket, and liabilities take money out!

As with assets, liabilities come in two flavors, each representing the amount of time it should take to repay the obligations:

- Current liabilities are to be repaid within one year (e.g. money for next week's employee paychecks.)

- Long-term liabilities are to be repaid in a period longer than one year, for example the mortgage on the company's facility.

These are common business liabilities, from both the current and long-term categories:

- Accounts payable: "Accounts payable" are the obligations owed to the many individuals and organizations that have provided goods and services to your company. Examples include money owed to your computer network consultant and an out-of-house marketing advertising agency.

- Notes payable: "Notes payable" represent loans made to your company by individuals or organizations such as banks and savings and loans. The notes could be anything from an acknowledgment of debt promised to an individual for a small amount of cash to a multimillion-dollar loan secured from a large bank.

- Accrued expenses: Sometimes a company incurs an expense but has no immediate plans to reimburse the individual or organization that's

owed the money. Examples include future wages to be paid to employees, interest due on loans, and utility bills.

- Bonds payable: When companies issue bonds to raise money to finance large projects, they incur obligations to pay back the individuals and organizations that purchase them.

- Mortgages payable: When companies purchase property, they often do so by taking out mortgages – long-term real estate loans, just like the one you may have on your home, secured by the property itself.

Owners' Equity

Owners' equity is the money that remains when you take all your company's assets and subtract all your liabilities. Owners' equity represents the owners' direct investment in the firm or the owners' claims on the company's assets. Another way of expressing a company's owners' equity is its net worth. Net worth is simply a snapshot of your company's financial health for a particular period of time.

Here are the two common types of owners' equity:

- Paid-in capital: The money that people invest in a company. When companies such as IBM or Volkswagen offer to sell shares of stock, investors provide paid-in capital to the companies when they pay money to buy the stock.

- Retained earnings: A company's earnings that are held within the company. The money gets reinvested, not paid out to shareholders as dividends.

Although owners' equity generally is a positive, it can go negative when a company takes on large amounts of debt – for example, to acquire another company.

The Equation

The basic accounting equation (Assets = Liabilities + Owners' Equity) is similar to any other equation: A change to one side of the equation causes a change in the other. Therefore, every financial transaction you make results in not one, but two entries to your accounting records – noted as double-entry bookkeeping. This observation was made more than five centuries ago (in 1494) by Luca Pacioli, an Italian mathematician and Franciscan monk. Rules of the Accounting Equation:

- Both side of the Basic Accounting Equation should be equal and balance.

- Every business transaction should change at least two accounts. It means that in every value received, another value is given up.

Example: Mohan's Flower shop
For example, when Mohan's Flower shop buys a big yellow dahlia to make bouquet , it affects him accounting equation.
Let's assume that Mohan's Flower shop starts with assets (inventory) of $1,000, liabilities (accounts payable) of $500, and owners' equity of $500. His equation would look like this:

Assets = Liabilities + Owners' Equity
$1,000 = $500 + $500

When Mohan purchases that yellow flower from the local market for $100, and the market agrees to bill her for it, he acquires an asset (inventory). he also takes on a liability of $100 — the money owed to the market (accounts payable). After this transaction, the accounting equation now looks like this:

Assets = Liabilities + Owners' Equity
$1,100 = $600 + $500

As you can see, Mohan added $100 of inventory to his assets, but he simultaneously added a payable of $100 to his liabilities. The owners' equity doesn't change. As this example shows, every transaction on one side of the accounting equation results in a transaction on the other side of the accounting equation.

Financial Statements

Financial statements are a collection of reports about an organization's financial results, financial condition, and cash flows. The objective of financial statements is to provide information about financial position, performance, and changes.

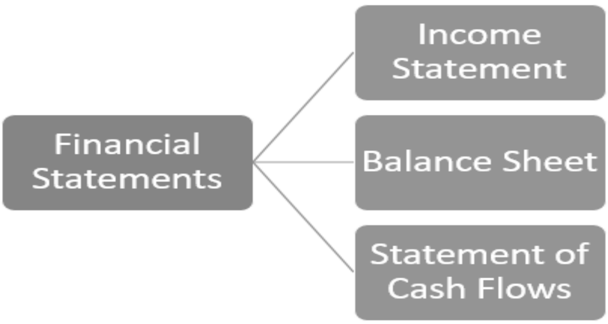
Why Statements?

Financial statements are very useful to a wide range of stakeholders:

- Owners and managers require financial statements to make business decisions that affect continued operations.
- Employees need financial statements when making collective bargaining agreements with the management and when discussing their compensation, promotion, and rankings.
- Investors need to assess the viability of a business.
- Financial institutions (banks and other lending companies) use statements to decide whether to grant a company fresh working capital or extend debt securities.
- Government entities (tax authorities) need financial statements to ascertain the accuracy of taxes declared and paid by a company.

The standard contents of a set of financial statements are:

- Income statement: This statement, also referred to as profit and loss statement (or a "P&L"), reports on a company's income, expenses, and profits over a period of time. A profit and loss statement provides information on the operation of the enterprise. These statements include sale and various expenses incurred during the processing state.
- Balance sheet: This statement reports on a company's assets, liabilities, and ownership equity at a given point in time. A balance sheet is often described as a "snapshot of a company's financial condition". It allows anyone to see what a company owns as well as what it owes to other parties as of the date indicated in the heading.
- Statement of cash flows: This statement reports on a company's cash flow activities—particularly its operating, investing, and financing activities.



For large corporations, these statements are often complex and may include extensive notes, an explanation of financial policies, and management analysis. The notes typically provide detail for items on the balance sheet, income statement, and cash flow statement. We will now take a close look at the three most important financial statements.

Income Statement

The Income Statement, also referred to as Profit and Loss (P&L) Statement, is a company's financial statement that shows managers and investors whether a company has made or lost money during a specific period of time. The income statement consists of revenues (money received from the sale of products and services, also known as the "top line") and expenses, along with the resulting net profit or loss over a period of time due to earning activities. Net income (the "bottom line") is the result after all revenues and expenses have been accounted for.

Let’s have a look at an example. Below you can see the income statement of the company XYZ Retailers:

XYZ Retailers Income Statement 20XX	
SALES	**250,000**
Cost of Goods Sold	90,000
GROSS PROFIT	**160,000**
Add: other revenue	
Rent received	3,000
Commission received	2,000
TOTAL REVENUE	**165,000**
Less: operating expenses	
Advertising	5,000
Public Relations	2,000
Website marketing	7,500
Depreciation	10,000
Electricity	1,500
Insurance	1,000
Rent expense	30,000
Wages and salaries	46,500
Bad debts	1,500
TOTAL EXPENSES	**105,000**
NET PROFIT	**60,000**

- The starting point of this income statement are sales of $250,000 that the company generated by selling their goods. After subtracting the cost to produce these goods and adding other operative revenues the company has a total revenue of $165,000.
- The company then subtracts other operating expenses such as advertising cost, electricity, insurances, and salaries and finally reaches a net profit of $60,000.

Income statements can help investors and creditors determine the past financial performance of the enterprise, predict future performance, and assess the capability of the business to generate future revenue streams through the reporting of income and expenses. The Income Statement (also referred to as a profit and loss statement) shows the company's revenues and expenses during a particular time period. However, information of an income statement has its limitations. Items like brand recognition and loyalty might be very relevant for a business but cannot be measured and are thus not reported.

Balance Sheet

A Balance Sheet is a financial statement that shows what the business is worth at a given point in time. The purpose of the balance sheet is to provide an idea of a company's financial position. It does so by outlining the total assets that a company owns, the amounts that it owes to lenders or banks (liabilities), as well as the amount of equity.

As shown earlier, the relationship of these items is expressed in the fundamental balance sheet equation: Assets = Liabilities + Equity.

The meaning of this equation is important. The total assets listed on a company's balance sheet must equal the company's total liabilities, plus its owners' equity in the company. This identity reflects the assumption that all of a company's assets are either financed through debt or through the contribution of funds by the company's owners. If a company's assets grow, its liabilities and/or equity must also grow in order for its financial position to stay in balance.

Let's take a look at another example: The balance sheet gives us an idea of the company's financial position:

- The company has assets of 8.37 million dollars (such as 0.48 in cash, 2.94 in inventory and 2.02 in plant & equipment).
- The company has liabilities of 4.17 million dollars (such as 2.33 in long-term debt).
- The company has equity of 4.2 million dollars.
- The company's total assets equal the company's total liabilities and equity. This is the case for all balance sheets.

The Balance Sheet reports a company's financial position at a single moment in time.

XYZ Fashion Balance Sheet 20XX (in 000s)			
Assets		**Liabilities**	
Cash	481	Accounts Payable	625
Marketable Securities	1,346	Current Portion L-T Debt	1,021
Accounts Receivable	1,677	Taxes Payable	36
Inventory	2,936	Accrued Expenses	157
Prepaid Expenses	172	Total Current Liabilities	1,839
Other Current Assets	58		
Total Current Assets	6,670	Long-term Debt	2,332
		Total Liabilities	**4,171**
Gross Value of Property, Plant & Equipment	2,019	**Stockholders Equity**	
Accumulated Depreciation	(664)	Common Stock and Paid-in Cap	194
Net Property, Plant, Equipment	1,355	Retained Earnings	4,009
		Total Shareholders' Equity	4,203
Note Receivable	349		
Total Assets	**8,374**	**Total Liabilities and Equity**	**8,374**

Statement of Cash Flows

The cash flow statement, also called the statement of cash flows reports the *cash* generated and used in a specific time period. The cash flow statement shows investors and creditors what transactions affected the cash accounts and how effectively and efficiently a company can use its cash to finance its operations and expansions. This is particularly important because investors want to know the company is financially sound while creditors want to know the company is liquid enough to pay its bills as they come due. In other words, does the company have good cash flow? The term cash flow generally refers to a company's ability to collect and maintain adequate amounts of cash to pay its upcoming bills. A company with good cash flow can collect enough cash to pay for its operations and fund its debt service without making late payments.

XYZ Manufacturing Cash Flow Statement 20XX	
Cash Flow from Operations	
Net income	79,000
Adjustments for depreciation	2,000
Adjustments for increase in inventories	(22,000)
Adjustments for decrease in accounts receivable	12,000
Net Cash Flow from Operations	**71,000**
Cash Flow from Investing	
Cash receipts from sale of property and equipment	10,000
Cash paid for purchase of equipment	(12,000)
Net Cash Flow from Investing	**(2,000)**
Cash Flow from Financing	
Cash paid for loan repayment	(5,500)
Net Cash Flow from Financing	**(5,500)**
Net Increase in Cash	**63,500**

The cash flow statement is similar to the income statement in that it records a company's performance over a specified period of time. The difference between the two is that the income statement also takes into account some non-cash accounting items such as depreciation. The cash flow statement strips away all of this and shows exactly how much actual money the company has generated. It provides a sharper picture of a company's ability to pay creditors, and finance growth. The cash flow statement reports the cash generated and used in a specific time period.

Financial Analysis

Why Financial Analysis? By using a variety of methods to analyze the financial information included on the statements, users can determine the risk and profitability of a company. The most popular method are financial ratios. Financial ratios quantify many aspects of a business and are an integral part of the financial statement analysis.

Financial analysis relies on comparing or relating data in a way that enhances the utility or practical value of the information. For example, when analyzing a particular company, it is helpful to know that it has generated a net income of $100,000 for the year, but it is even more helpful to know that, in a previous year, it had only generated a net income of $25,000.

As more information is added, such as the total amount of sales, the number of assets and the cost of goods sold, the initial information becomes increasingly valuable, and a more complete picture of a company's financial activity can be derived.
Financial analysis allows for a number of comparisons. The four most common comparisons are:

- Between companies
- Between industries
- Between different time periods for one company
- Between a single company and its industry average

Debt to Assets Ratio

Debt ratios measure the firm's ability to repay debt. It is a financial ratio that indicates the percentage of a company's assets that are provided via debt and is calculated by dividing total liability and total assets.

$$\text{Debt ratio} = \frac{\text{Total Liability}}{\text{Total Assets}}$$

If the ratio is less than 0.5, most of the company's assets are financed through equity. If the ratio is greater than 0.5, most of the company's assets are financed through debt. The higher the ratio, the greater risk will be associated with the firm's operation. In addition, high debt-to-assets ratio may indicate low borrowing capacity of a firm, which in turn will lower the firm's financial flexibility. A company with a high debt ratio could be in danger if creditors start to demand repayment of debt.
Like all financial ratios, a company's debt ratio should be compared with their industry average or other competing firms.

Example: Calculating the Debt-to-Asset Ratio

We can calculate the debt-to-asset company with the help of the balance sheet (see table below). In this example the debt ratio is: Total liability ($4.17 million) / total assets ($8.37 million) = 0.49. This means that 49% of the company's assets are provided via debt.

XYZ Fashion Balance Sheet 20XX (in 000s)			
Assets		**Liabilities**	
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		Total Shareholders' Equity	4,203
Note Receivable	349		
Total Assets	**8,374**	**Total Liabilities and Equity**	**8,374**

To determine if this a good or bad value, it needs to be benchmarked against similar companies or against previous years. For example, if the same company had a debt-to-asset ratio of 0.55 last year and 0.61 the year before, the current value of 0.49 shows that the company was able to pay back and reduce its debt.

Profit Margin

Profit margin is one of the most used profitability ratios. Profit margin refers to the amount of profit that a company earns through revenue. Typically expressed as a percentage, net profit margins show how much of each dollar collected by a company as revenue translates into profit. The net profit margin is calculated by dividing net profit and revenue.

$$\text{Net profit Margin} = \frac{\text{Net Profit}}{\text{Revenue}}$$

Companies need to have a positive profit margin in order to earn income. Only in a few cases having a negative profit margin may be advantageous (e.g. intentionally selling a new product below cost in order to gain market share). A low profit margin indicates a low margin of safety. There is a higher risk that a decline in sales will erase profits and result in a net loss or a negative margin.

Example: Calculating the Profit Margin

We can calculate the profit margin of a company with the help of the income statement (see table below). In this example the profit margin is:

Net profit ($60,000) / Revenue ($165,000) = 0.36

This means that 36 cents of each dollar collected as revenue by the company translates into profit. In order to determine if a profit margin of 0.36 – or 36 percent – is a good value, it needs to be compared. Market research suggests that many small retail businesses operate within the parameters of having a gross **profit margin** of 25 to 35 percent. A profit margin of 36 percent is therefore a very good value in the retail industry.

Time Value of Money (TVM)

Time value of money (TVM) is the idea that money that is available at the present time is worth more than the same amount in the future, due to its potential earning capacity. TVM is the core principle and one of the most fundamental concepts in finance.

What is TVM?

One of the most fundamental concepts in finance is the Time Value of Money (TVM). It states that money today is worth more than money in the future.

Imagine you are lucky enough to have someone come up to you and say “I want to give you $500. You can either have $500 right now, or I can give you $500 in a year. What would you prefer?”

Presumably, you would ask to have the $500 right now. If you took the money now, you could use it to buy a TV. If you choose to take the money in one year, you could still use it to buy the same TV, but there is a risk. The TV might not be for sale or inflation may mean that the TV will cost $600. Since there’s no cost to taking the money now, you might as well take it.

There is some value, however, that you could be paid in one year that would be worth the same to you as $500 today. Say it is $550 – you are completely indifferent between taking $500 today and $550 next year because even if you had to wait a year to get your money, you think $50 is worth waiting.

In finance, there are special names for each of these numbers to help ensure that everyone is talking about the same thing. The $500 you get today is called the Present Value (PV). This is what the money is worth right now. The $550 is called the Future Value (FV). This is what $500 today is worth after the time period (t) – one year in this example. In this example money with a PV of $500 has a FV of $550. The rate that you must be paid per year in order to not have the money is called an Interest Rate (r).

All four of the variables (PV, FV, r, and t) are tied together in one fundamental equation. Don't worry if this seems confusing; the concept will be explored in more depth later.

$$FV = PV \cdot (1 + rt)$$

Why is TVM Important?

The principle of the time value of money explains why interest is paid or earned: Interest, whether it is on a bank deposit or debt, compensates the depositor or lender for the time value of money. It also underlies investment. Investors are willing to forgo spending their money now if they expect a favorable return on their investment in the future.

The time value of money is a concept integral to all parts of business. A business does not want to know just what an investment is worth today it wants to know the total value of the investment. What is the investment worth in total? Let's take a look at a couple of examples.

Suppose you are one of the lucky people to win the lottery. You are given two options on how to receive the money:

Option 1: Take $5,000,000 right now.
Option 2: Get paid $600,000 every year for the next 10 years.

In option 1, you get $5,000,000 and in option 2 you get $6,000,000. Option 2 may seem like the better bet because you get an extra $1,000,000, but the time value of money theory says that since some of the money is paid to you in the future, it is worth less. By figuring out how much option 2 is worth today (through a process called discounting), you'll be able to make an apples-to-apples comparison between the two options. If option 2 turns out to be worth less than $5,000,000 today, you should choose option 1, or vice versa.

Let's look at another example. Suppose you go to the bank and deposit \$100. Bank 1 says that if you promise not to withdraw the money for 5 years, they'll pay you an interest rate of 5% a year. Before you sign up, consider that there is a cost to you for not having access to your money for 5 years.

At the end of 5 years, Bank 1 will give you back \$128. But you also know that you can go to Bank 2 and get a guaranteed 6% interest rate, so your money is actually worth 6% a year for every year you don't have it. Converting our present cash worth into future value using the two different interest rates offered by Banks 1 and 2, we see that putting our money in Bank 1 gives us roughly \$128 in 5 years, while Bank 2's interest rate gives \$134. Between these two options, Bank 2 is the better deal for maximizing future value.

$$FV = PV \cdot (1+i)^t$$

Bank 1: FV = \$100 * (1 + 0.05)^5 = 127.6
Bank 2: FV = \$100 * (1 + 0.06)^5 = 133.8

Simple and Compound Interest

There are two primary ways of determining how much an investment will be worth in the future if the time frame is more than one period.

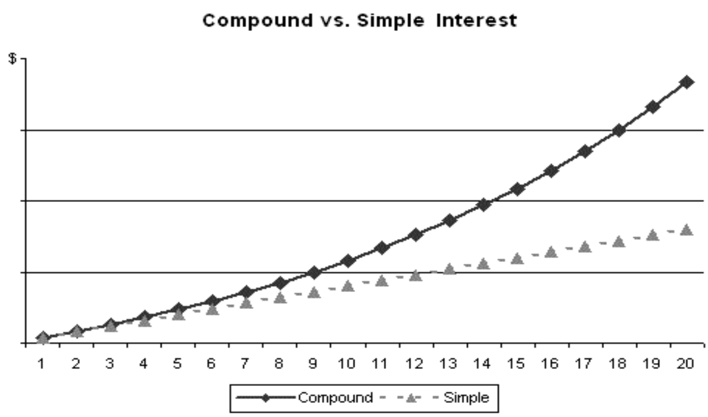
The first concept of accruing (or earning) interest is called "simple interest". Simple interest means that you earn interest only on the principal. Your total balance will go up each period, because you earn interest each period, but the interest is paid only on the amount you originally borrowed/deposited.

Suppose you make a deposit of \$100 in the bank and earn 5% interest per year. After one year, you earn 5% interest, or \$5, bringing your total balance to \$105. One more year passes, and it's time to accrue more interest. Since simple interest is paid only on your principal (\$100), you earn 5% of \$100, not 5% of \$105. That means you earn another \$5 in the second year, and will earn \$5 for every year of the investment. In simple interest, you earn interest based on the original deposit amount, not the account balance.

The second way of accruing interest is called "compound interest". In this case, interest is paid at the end of each period based on the balance in the account. In simple interest, it is only how much the principal is that matters. In compound interest, it is what the balance is that matters. Compound interest is named as such because the interest compounds: Interest is paid on interest!

Suppose you make the same $100 deposit into a bank account that pays 5%, but this time, the interest is compounded. After the first year, you will again have $105. At the end of the second year, you also earn 5%, but it's 5% of your balance, or $105. You earn $5.25 in interest in the second year, bringing your balance to $110.25. In the third year, you earn interest of 5% of your balance, or $110.25. You earn $5.51 in interest bringing your total to $115.76.

Let's compare compound interest and simple interest. Simple interest earns you 5% of your principal each year, or $5 a year. Your balance will go up linearly each year. Compound interest earns you $5 in the first year, $5.25 in the second, a little more in the third, and so on. Your balance will go up exponentially. Comparing simple and compound interest:



Calculating Future Value

When calculating a future value (FV), you are calculating how much a given amount of money today will be worth some time in the future. In order to calculate the FV, the other three variables (present value, interest rate, and number of periods) must be known. Recall that the interest rate is represented by either r or i, and the number of periods is represented by either t or n. It is also important to remember that the interest rate and the periods must be in the same units. That is, if the interest rate is 5% per year, one period is one year. However, if the interest rate is 5% per month, t or n must reflect the number of periods in terms of months.

$$FV = PV \cdot (1 + i)^t$$

Example 1: What is the FV of a $500, 10-year loan with 7% annual interest?

In this case, the PV is $500, t is 10 years, and i is 7% per year. The next step is to plug these numbers into an equation. But recall that there are two different formulas for the two different types of interest, simple interest and compound interest. If the problem doesn't specify how the interest is accrued, assume it is compound interest, at least for business problems.

So from the formula, we see that FV = PV * (1 + i)^t and thus FV = 500 * (1 + 0.07)^10. Therefore, FV = $983.58.

In practical terms, you just calculated how much your loan will be in 10 years. This assumes that you don't need to make any payments during the 10 years, and that the interest compounds. Unless the problem states otherwise, it is safe to make these assumptions – you will be told if there are payments during the 10 year period or if it is simple interest.

Example 2: Suppose we want to again find the future value of a $500, 10-year loan, but with an interest rate of 1% per month. In order to get our total number of periods (t), we would multiply 12 months by 10 years, which equals 120 periods.

Therefore:
FV = 500 * (1 + 0.01)^120
FV = $1,650.19

Budgets

One of the keys to running a business is the ability to predict how it will perform financially. A budget is a financial plan for a defined period, often one year. Companies, governments, but also families and individuals use it to express strategic plans of activities or events in measurable terms.

Why Budgets?

A budget is nothing more than a written estimate of how an organization – or a particular project, department, or business unit – will perform financially. The real value in budgets comes when you compare estimates of expected performance to actual performance. When the numbers match, you know that your organization or project is performing just as it should. When the numbers differ markedly, you know that you need to ask the question "Why?" and take a very close look at what's going on.

With the speed of business increasing all the time, why bother doing budgets at all? Budgets offer the following benefits to organizations that use them:

- Budgets are milestones on the road to your goals. Every organization has (or at least should have) goals. Budgets are quick and easy ways to see whether your organization is on track to meet its financial goals.

- Budgets make decisions easier. When you budget a project, initiative, or business activity, you'll quickly have a picture of what it will cost. Armed with that information, you can decide whether the costs you'll incur make good business sense or not.

- Budgets can be fast. A budget can be a simple, one-page computer spreadsheet. With simple budgets, you can make changes quickly, in near-real time, and print them out or e-mail them immediately.

- Budgets can be flexible. A budget can accommodate changes and create an up-to-date picture of how your organization is performing.

Whereas extensive, long-range (strategic) planning seems increasingly less valuable to most organizations today, near-term (tactical) planning is becoming incredibly valuable. Budgets are a very necessary part of the tactical planning process.

Kinds of Budgets

There are many different types of budgets and three key approaches to developing a budget: bottom up, top down, and zero based. Each approach has its advantages and disadvantages, and each approach can work well – although the pendulum is clearly swinging in favor of the bottom-up approach:

- **Bottom-up Budgeting:** In bottom-up budgeting, supervisors and middle managers prepare the budgets and then forward them up the chain of command for review and approval. Middle managers have the benefit of a close working knowledge of the organization and its financial performance. As a result, bottom-up budgets tend to be more accurate than top-down budgets. In addition, bottom-up budgets can have a positive impact on employee morale, because employees assume an active role in providing financial input to the budgeting process.

- **Top-down Budgeting:** In this approach, top management prepares the budgets and imposes them on the lower layers of the organization – generally without any consultation or involvement on the part of those outside of top management. Top-down budgets clearly express the performance goals and expectations of top management. These budgets,

however, can be unrealistic, because they don't incorporate the input of the very people who will implement them.

- **Zero-based Budgeting:** The process in which each manager prepares estimates of his or her proposed expenses for a specific period of time, as though they were being performed for the first time. In other words, each budgeted activity starts from a budget base of zero. By starting from scratch at each budget cycle, managers must take a close look at all their expenses and justify them to top management, thereby (at least in theory) minimizing waste.

Variance Analysis

A simple way to use a budget to keep your eye on the numbers is through variance analysis. In simple terms, variance analysis is a comparison of the financial estimates that you budget for a particular period with your firm's actual financial results.
The variance is the difference between budget and actual – which can be positive, negative or zero. This method gives you an immediate picture of financial issues that may require a closer look on your part.

In the following monthly expense report example, look at the variance between the budget and the actual figures:

Expenses	***Budget***	***Actual***	***Variance***
Rent	$1,400	$1,400	$0
Wages	$10,000	$12,500	$2,500
Taxes	$1,300	$1,500	$200
Insurance	$1,000	$1,500	$500
Total expenses	$13,700	$16,900	$3,200

In this example, fixed expenses were originally budgeted at $13,700 for the month. However, when the month ended, the accounting system reflected actual fixed expenses of $16,900. This resulted in a total variance — or over-pending — of $3,200.

After you determine that you have a budget variance for the period in question, the next step is to decide whether it's significant and, if so, to figure out why it occurred. A variance of $3,200, which is 23 percent of the original budget of $13,700, is definitely significant and warrants a very close look by the responsible manager! If you were that manager, what would you identify as the most significant variance in the table above? A quick look indicates that wages are the main source of the variance, with spending for the period totaling $2,500 more than the plan. This may mean that employees are charging excessive overtime, someone got a raise that you hadn't anticipated, or any number of other possibilities. As the manager, it's your job to determine the reason behind the numbers and then decide if corrections need to be made.

Variances are not limited to expenses like in the example above. You can create variances for all kinds of key performance indicators in your company. Most commonly-derived variances used in variance analysis include the *purchase price variance*, *labor rate variance*, *selling price variance*, *labor efficiency variance*, and many more. It is not necessary to track all of the preceding variances. In many organizations, it may be sufficient to review just one or two variances. For example, a consulting business might be solely concerned with the labor efficiency variance, while a manufacturing business in a highly competitive market might be mostly concerned with the purchase price variance.

Financial Markets

A financial market brings buyers and sellers together to trade in financial assets. The purpose of a financial market is to set prices for global trade, raise capital, and transfer liquidity and risk. Although there are many components to a financial market, two of the most commonly used are money markets and capital markets.

The Money Market is an unorganized arena of banks, financial institutions, bill brokers, money dealers, etc. wherein trading on short-term financial instruments is being concluded. These markets are also known by the name wholesale market. Trade Credit, Commercial Paper, Certificate of Deposit, Treasury Bills are some examples of the short-term debt instruments. They are highly liquid (cash equivalents) in nature, and that is why their redemption period is limited to one year. They provide a low return on investment, but they are quite safe trading instruments. Money Market is an unsystematic market, and so the trading is done off the exchange, i.e. Over The Counter (OTC) between two parties by using phones, email, fax, online, etc. It plays a major role in the circulation of short-term funds in the economy. It helps the industries to fulfill their working capital requirement.

The Capital Market is a type of financial market where the government or company securities are created and traded for the purpose of raising long-term finance to meet the capital requirement. The securities which are traded include stocks, bonds, debentures,

euro issues, etc. whose maturity period is not limited up to one year or sometimes the securities are irredeemable (no maturity). The market plays a revolutionary role in circulating the capital in the economy between the suppliers of money and the users. The Capital Market works under full control of Securities and Exchange Board to protect the interest of the investors.

	Money Market	**Capital Market**
Meaning	Short-term securities are issued and traded	Long-term securities are issued and traded
Financial Instruments	Government Securities, Certificate of Deposit, Commercial Papers (CPs) etc.	Shares, Bonds, Debentures, etc.
Risk Factor	Low	High
Return on Investment	Low	High
Time Horizon	Less than one year	More than one year

In conclusion, **capital markets offer higher-risk investments, while money markets offer safer assets**. Money market returns are often low but steady, while capital markets offer higher returns. Accountancy is the process of communicating financial information about a business entity to users such as shareholders and managers.
The communication is generally in the form of financial statements that show the economic resources under the control of management. The art lies in selecting the information that is relevant to the user. In order to do so, you learned to:

- Read and understand financial statements (Balance Sheet, Income Statement and Cash Flow Statement)
- Understand the basics of bookkeeping and journal entries
- Analyze financial statements with ratio analyses

The concept of Time Value of Money underlies investment. Investors are willing to forgo spending their money now if they expect a favorable return on their investment in the future.

Thank You

Day 07

Strategy and Operations

What is Strategic Management?

Strategic management is a continuous process of strategic analysis, strategy creation, implementation and monitoring, used by organizations with the purpose to achieve and maintain a competitive advantage. A modern strategic management approach includes an analysis of strategic resources, skills, abilities and core competencies. The crucial topics of such an approach are the sources of competitive advantages. Crucial resources are the best adapting of the organization to its environment, the possession of resources, skills and abilities that are valuable, rare and difficult to imitate by competitors. This course deals with these essential topics and concepts of strategic management, resource planning and managing production operations.

Strategic management is not about predicting the future but about preparing for it and knowing what exact steps the company will have to take to reach its goals. In essence, it answers the following 3 questions:
– Where is the organization at the moment?
– Where does it want to go?
– How will it get there?
Why is it important to know about this?

Strategic Management and efficient operational planning will give you and your company a competitive advantage. A company, which has a competitive advantage, performs financially much better than other companies in the industry. It also allows viewing things from a broader perspective. Only the managers who see the whole picture of the company and its surrounding environments can make the decisions that are best for the company's future.
Let's take a quick look at the benefits of having knowledge about this topic. Strategic management…

- Defines a company's vision, mission and future goals and the strategy to achieve these goals.
- Improves awareness of the external and internal environments.
- Increases managers' commitment to achieving the company's objectives.
- Improves coordination of the activities and more efficient allocation of company's resources.
- Strengthens the firm's performance.
- Strategic planning allows the organization to become more proactive than reactive.

Vision Statement

The vision is a statement that expresses the organization's ultimate objectives. It is very important for any organization to have clear and attainable long-term vision; the statement that guides every chief executive, manager or employee in achieving the same organizational objective. A vision statement asks 'What does our business want to become?' and usually is one sentence, inspirational, clear and memorable statement that expresses the company's desired long-term position. The statement indicates what resources, competencies and skills will be needed to achieve the future objective. This way it guides decision-making and resource allocation more effectively.

	Vision	**Mission**
Purpose	Tells what an organization aims to achieve.	States what a company is currently doing.
Question	What do we want to become?	What do we do?
Includes	Objectives Values	Customers Products/Services Markets Technology Concern for survival Philosophy Self-Concept Concern for public image Concern for employees
Time	Talks about the future	Talks about the present
Target group	Employees of the company	Employees, customers, suppliers, distributors, partners and communities
Flexibility	Rarely changes because most of the objectives take years to achieve	Product-oriented missions change every time when a company decides to venture into new product market.

Vision and mission statements are often developed and used together for the same purpose. This confuses many people into thinking that vision and mission could be used

interchangeably when actually they can't. The previous table shows the main differences between the two statements.

Benefits of a Vision Statement

Not all the visions are equally good. Some of them are very generic or focus on financial objectives and as a result, poorly motivate employees. A good Vision Statement should:

- Motivate and inspire employees
- Provide a purpose to work for
- Set goals
- Guide managers and employees

How do you write a Vision Statement?

- Gather a team of managers, employees and shareholders. Vision is the statement that must be understood by employees of all levels. As many people as possible should be involved in the process because involvement leads to a stronger commitment to company's vision.
- Brainstorm and ask everyone to write their own vision. After analyzing the individual statements, the team should try to create a draft vision out of all these submissions. This is also a great opportunity to resolve any conflicting views about the firm's ultimate objective.
- Revise the statement and present the final version. The draft statement should be distributed to the members again for their last revision. Upon receiving the feedback, the final version of the vision should be created and presented to every employee.

The best way to learn to create a vision is to look at existing examples from other companies. Good examples include statements that state objectives and values, that are short and precise, that motivate employees and are easy to remember:

- Feeding America: A hunger-free America
- Microsoft: A computer on every desk and in every home
- Save the Children: Our vision is a world in which every child attains the right to survival, protection, development, and participation

Bad examples, however, include statements that are too vague or do not set any clear objectives:

- General Motors: To design, build and sell the world's best vehicles
- Samsung: Inspire the World, Create the Future

Mission Statement

A Mission statement is a short description of what an organization actually does, how it does it, and why it does it. The Mission Statement defines a company's core purpose or reason for being. It usually has a length of approximately 250 words and is an important communication tool that conveys information about organization's products, services, targeted customers, geographic markets, philosophies, values and plans for future growth. In other words, every major reason why a company exists must be reflected in its mission, so any employee, supplier, customer or community would understand the driving force behind the organization's operations.

Types of Mission Statements

There are two main types of statements:

- Customer-oriented missions: Customer-oriented missions define organization's purpose in terms of meeting customer needs or providing solutions for them. For example, Nokia's statement "connecting people" is customer-oriented. It does not focus on mobile phones or smartphones only. It provides a solution to customer needs of connectivity. It gives the company a certain strategic flexibility.
- Product-oriented missions: Product-oriented missions focus on what products or services to serve rather than what solutions to provide for customers. These statements provide less flexibility for the company because most products have a short lifecycle and offer limited market expansion. An example may be a company that claims: "Providing the best financial services".

However, if possible, a Mission Statement should also include the following items:

- Markets: In which geographical markets do you operate?
- Technology: What is the firm's technology?
- Philosophy: What are the basic beliefs and values?
- Self-concept: What is the firm's competitive advantage?
- Image: Is the firm socially responsible and environmentally friendly?

Benefits of a Mission Statement

A Mission Statement brings the following benefits for a company:

- It informs the organization's stakeholders about its plans and goals
- It serves as an effective public relations tool
- It provides the basis for allocating resources
- It guides strategic and daily decision-making

Writing a Mission Statement

- Gather a team of managers, employees, and shareholders: Just as the Vision Statement, the Mission Statement must be understood by employees of all levels – additionally it needs to be understood by people outside the company. Involving more external people will let you find out how each of them sees an organization and its core purpose.
- Think about items that you want to include into your Mission Statement: Try to brainstorm about information of your customers, products, technology, markets, philosophy, self-concept, and image individually.
- Find the best combination: Collect the answers from everyone and try to combine one mission statement out of them.

Examples

FedEx focuses on its products, clients, and values: "FedEx Corporation will produce superior financial returns for its share-owners by providing high value-added logistics, transportation, and related information services through focused operating companies. Customer requirements will be met in the highest quality manner appropriate to each market segment served. FedEx Corporation will strive to develop mutually rewarding relationships with its employees, partners, and suppliers. Safety will be the first consideration in all operations. Corporate activities will be conducted to the highest ethical and professional standards."
Intel's Mission Statement, on the other hand, is somewhat too vague and leaves it philosophy, self-concept, and public image completely: "Delight our customers, employees, and shareholders by relentlessly delivering the platform and technology advancements that become essential to the way we work and live."

PESTLE Analysis

What is the PESTLE analysis?

PESTLE is a model that examines the Political, Economic, Social, Technological, Legal and Environmental external environment of an organization, which may have an impact on a company and its performance. It is a simple and effective tool used in situation analysis to identify the key external forces that might affect an organization. These forces can create both opportunities and threats for an organization.
Purpose of a PESTLE analysis

- To find out the current external factors affecting an organization
- To identify the external factors that may change in the future
- To exploit the changes (opportunities) or defend against them (threats)

The outcome of PESTLE is an understanding of the overall picture surrounding the company(e.g. car manufacturer) and the company's industry (e.g. car industry). It is important to note that PESTLE does not examine the company's industry itself, but the macro environment around the industry.

Performing a PESTLE analysis

The process of carrying out a PESTLE analysis should involve as many managers as possible to get the best results. It includes the following two steps:

1. Gathering information about political, economic, social, technological, environmental, and legal environment and current developments in these fields.

2. Identifying which factors represent opportunities and which factors represent threats.

The following table will help you to carry out a PESTLE analysis:

PESTLE Analysis

Political	**Economic**
	Growth rates
	Inflation rate
Government stability	Interest rates
Bureaucracy & Public Administration	Exchange rates
Corruption level	Unemployment trends
Tax policy (rates and incentives)	Labor costs
Freedom of press	Stage of business cycle
Regulation / deregulation	Credit availability
Trade control	Trade flows and patterns
Import restrictions	Level of consumers' disposable income
Tariffs	Monetary policies
Competition regulation	Fiscal policies
Government involvement in trade unions and agreements	Price fluctuations
	Stock market trends
	Weather
	Climate change

Social	Technological
Health consciousness	
Education level	
Attitudes toward imported goods and services	
Attitudes toward work, leisure, career and retirement	
Attitudes toward product quality and customer service	
Attitudes toward saving and investing	Basic infrastructure level
Emphasis on safety	Rate of technological change
Lifestyles	Spending on research & development
Buying habits	Technology incentives
Religion and beliefs	Legislation regarding technology
Attitudes toward "green" or ecological products	Technology level in your industry
Attitudes toward and support for renewable energy	Communication infrastructure
Population growth rate	Access to newest technology
Immigration and emigration rates	Internet infrastructure and penetration
Age distribution and life expectancy rates	
Sex distribution	
Average disposable income level	
Social classes	
Family size and structure	
Minorities	

Environmental (ecological)	Legal
Weather Climate change Laws regulating environment pollution Air and water pollution Recycling Waste management Attitudes toward “green” or ecological products Endangered species Attitudes toward and support for renewable energy	Anti-trust law Discrimination law 5. Copyright, patents / Intellectual property law Consumer protection and e-commerce Employment law Health and safety law Data Protection Environmental Law Education Law Health and safety law Data protection law Laws regulating environment pollution

Identifying opportunities and threats

Gathering information is just a first important step in doing a PESTLE analysis. Once this is done, the information has to be evaluated. There are many factors changing in the external environment but not all of them are affecting or might affect an organization. Therefore, it is essential to identify which PESTLE factors represent the opportunities or threats for an organization and list only those factors in the PESTLE analysis. This allows focusing on the most important changes that might have an impact on the company.

Example

The following statements are part of a shortened PESTLE analysis for a car manufacturer. It states opportunities and threats that are affecting the firm and the car industry in general:

Political:

- Government will most likely cut subsidies for the car industry in the next year
- “Environment” and “Mobility” will be important issued in the upcoming elections.

Economic:

- Availability of credit for businesses will slightly grow or remain unchanged this year. The same applies for the cost of credit in the 1 half of the year
- Corporate tax rate will decrease by 2% next year to 23%
- Dollar exchange rates are expected to decrease compared to the Euro
- Metal and oil prices will increase by 5% and 6%.

Social:

- Positive attitude towards “green” vehicles will further increase
- Increasing attitude toward jobs with shorter work hours.

Technological:

- New machinery that could reduce production costs by 20% is in development
- Driverless cars may be introduced in the near future.

Legal:

- The government has passed legislation which requires further reductions of CO_2, HC and NC emissions for vehicles by 40%
- Environmental law: most polluting cars will be banned from city centers.

Environmental:

- CO_2 reduction targets in the EU will probably not be reached this year
- Air pollution is becoming a major concern in major cities.

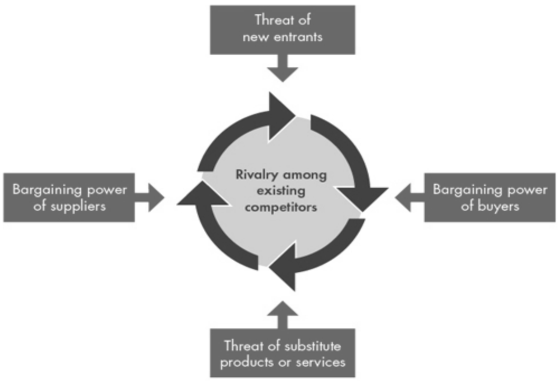
Porter’s Five Forces

Porter’s five forces model is an analysis tool to determine the profitability of an industry and shape a firm’s competitive strategy. In contrast to PESTEL, which focused on examining the macro environment of a company, Porter’s Five examines the company’s industry. The model was created by Michael Porter in 1979 in order to understand how key competitive forces are affecting an industry.

The five competitive forces include:

- Threat of entry: Are there high or low barriers to enter the market?
- Threat of substitutes: Can the market be substituted by other products or services?
- Bargaining power of suppliers: Do suppliers have a strong or weak bargaining power?

- Bargaining power of buyers: Do buyers have a strong or weak bargaining power?
- Industry rivalry: Is there low or intense competition inside the industry?



These forces determine an industry structure and the level of competition in that industry. Attractive and unattractive industries can thus be distinguished.

Attractive Industry	**Unattractive Industry**
High market barriers to enter	Low market barriers to enter
Suppliers have a weak bargaining power	Suppliers have a strong bargaining power
Buyers have a weak bargaining power	Buyers have a strong bargaining power
Few substitute products or services exist	Many substitute products or services exist
Competition in the industry is quite low	Competition in the industry is intense

Benefits of Porter's Five Forces Model

It is every strategist's task to evaluate the company's competitive position in the industry and to identify what strengths or weakness can be exploited to strengthen that position. The tool is very useful in formulating firm's strategy as it reveals how powerful each of the five key forces is in a particular industry.

What are the five forces ?

- Threat of new entrants: This force determines how easy (or not) it is to enter a particular industry. If an industry is profitable and there are few barriers to enter, rivalry soon intensifies. When more organizations compete for the same market share, profits start to fall. It is essential for existing organizations to create high barriers for others to enter their market. This threat is real, when entering the market does not require a lot of capital, companies do not possess patents, trademarks, and a good reputation, there is no government regulation, products of different firms are nearly identical and customer loyalty is generally low.
- Bargaining power of suppliers: Strong bargaining power allows suppliers to sell higher priced or low-quality raw materials to their buyers. The buying firm will need to pay a higher price. Suppliers have strong bargaining power when there are only a few, large and strong suppliers available and the cost of switching your raw materials is especially high.
- Bargaining power of buyers: Buyers have the power to demand lower prices or higher product quality from industry producers when their bargaining power is strong. Lower price means lower revenues for the producer, while higher quality products usually raise production costs. Buyers exert strong bargaining power when only a few buyers exist, customers are especially price sensitive, and switching costs to other products is low.
- Threat of substitutes: This force is especially threatening when buyers can easily find substitute products with attractive prices or equal or even better quality.
- Rivalry among existing competitors: This force is the major determinant of how competitive and profitable an industry is. In a competitive industry, firms have to compete aggressively for a market share, which results in low profits. Rivalry among competitors is intense when there are many competitors and the industry's growth rate is small or negative.

Carrying out the analysis

- Gather the information on each of the five forces: Managers should gather information about their industry concerning all five fields. E.g. how many competitors are there?
- Analyze the results and display them on a diagram: After gathering all the information, you should analyze it and determine how each force is affecting an industry. E.g. do the competitors have equal sizes? Is there one dominating competitor?
- Formulate strategies based on the findings: Managers should formulate a firm's strategy using the results of the analysis.

Example

This is simple example of a Porter's five forces analysis for the automotive industry:
Threat of new entry

- Large amount of capital required
- A firm has to produce at least 5 vehicles to be cost competitive
- All automotive companies have established brand image and reputation
- Conclusion: very weak threat of new entry. This is a real force for a company already operating in this industry.

Bargaining power of suppliers

- Large number of suppliers
- Materials widely accessible
- Suppliers do not pose any threat of forward integration
- Conclusion: weak supplier power. This is a real force for a company in this industry.

Bargaining power of buyers

- It doesn't cost much for buyers to switch to another brand of vehicle
- Buyers can switch to another type of transportation
- Buyers are price sensitive
- Conclusion: the bargaining power of the buyers is quite strong. This could be a weakness of this industry.

Threat of substitutes

- There are many alternative types of transportation, such as bicycles, motorcycles, trains, buses or planes
- Substitutes can rarely offer the same convenience
- Conclusion: there is a certain threat of substitute, but most buyers will nevertheless stick to cars.

Competitive rivalry

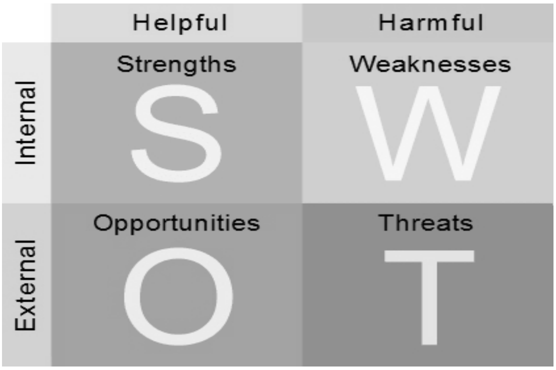
- Moderate number of competitors that are all specialized in manufacturing cars
- Industry is very large but matured
- There are several competitors for each consumer segment

- Conclusion: the competitive rivalry is very strong. This is the main problem of a company that is operating in this industry.

SWOT Analysis

A SWOT analysis involves the collection and portrayal of information about internal and external factors which have an impact on business. It analyzes an organization's internal strengths and weaknesses alongside the opportunities and threats present in the external environment.

- Strengths: factors that give an edge for the company over its competitors (internal)
- Weaknesses: factors that can be harmful if used against the firm by its competitors (internal)
- Opportunities: favorable situations which can bring a competitive advantage (external)
- Threats: unfavorable situations which can negatively affect the business (external)



Strengths and weaknesses are internal to the company and can be directly managed by it, while the opportunities and threats are external and the company can only anticipate and react to them.

Benefits of Using a SWOT analysis

- It is simple and practical to use
- It is easy to understand and delivers a clear message
- It focuses on the key internal and external factors affecting a company
- It helps to identify future goals and initiates further analysis

The elements of a SWOT analysis

SWOT analysis for your company

Strengths (Internal)	Weaknesses (Internal)
Strong patents portfolio (150 patents)	Profit margin is below the industry average
Investments in R&D are 5% higher than industry average	Poor customer service
Access to cheap cash reserves	High employee turnover
Customer loyalty is 7% higher than industry average	Weak brand portfolio
Highly skilled workforce	Poor presence in the world's largest markets
Opportunities (External)	**Threats (External)**
Growing demand for "green" cars	Corporate tax will increase from 19% to 21% in 2019
New technology, that would drive production costs by 20% is in development	Rising raw material prices expected by 5% next year
Disposable income level will increase	Market is expected to grow by only 1% next year indicating market saturation
Economy is expected to grow by 4% next year	Stricter laws regulating environment pollution. CO2 pollution needs to decline.
Interest rates will fall to 1%	Lawsuits against the company

Strengths and Weaknesses: Strengths and weaknesses are the factors of the firm's internal environment. When looking for strengths, ask yourself: "What do we do better than our competitors?" For weaknesses, ask yourself: "What could we do better?" Finding strengths and weaknesses of a company usually, can be done by benchmarking (comparing to competitors). For example, a 10% profit margin might be a very good result for a company if the industry average is only 5% (strength). However, it is a bad result if the industry average is 15% (weakness).

Opportunities and threats: Opportunities and threats are the external uncontrollable factors that usually appear or arise due to the changes in the macro environment, industry or competitors' actions. Threats may damage your company so you would better avoid or defend against them. Remember that the PESTLE model only shows external factors of the macro environment, Porter's Five Forces shows opportunities and threats inside an industry.

Limitations of a SWOT analysis

Although there are clear benefits of doing this analysis, many managers criticize this tool for being too vague and for not delivering clear recommendations. We will thus take a look at another tool that helps to prioritize and evaluate business strategies: the Competitive Profile Matrix (CPM).

Competitive Profile Matrix (CPM)

CPM is a tool that compares a company and its rivals and reveals their relative strengths and weaknesses. The matrix identifies the firm's key competitors and compares them using the most important success factors of an industry. The analysis also reveals company's relative strengths and weaknesses against its competitors, so the company knows which areas it needs to improve and which areas it should protect. An example of the matrix is demonstrated below. Take a look and try to get the logic behind it.

		Your Company		Rival A		Rival B	
Critical Success Factors	Weight	Rating	Score	Rating	Score	Rating	Score
Brand reputation	0.3	3	0.9	4	1.2	1	0.3
Range of products	0.2	4	0.8	1	0.2	2	0.4
Market Share	0.3	2	0.6	4	1.2	1	0.3
Sales per employee	0.1	3	0.3	1	0.1	4	0.4
Variety of distribution channels	0.1	1	0.1	1	0.1	4	0.4
Total	1	–	2.7	–	2.8	–	1.8

The elements of a CPM

- Critical Success Factors: These are the key areas, which must be performed at the highest possible level of excellence if an organization wants to succeed in the particular industry. They vary between different industries and include both internal and external factors. In our example, we have included five success factors.
- Weight: Each critical success factor should be assigned a weight ranging from 0.0 (no importance) to 1.0 (only importance). The number indicates how important each factor is in succeeding in the industry. The sum of all the weights should equal 1.0. In our first example, we assumed that brand reputation (0.3) and market share (0.3) are the most significant factors.
- Rating: The ratings in CPM refer to how well companies are doing in each area. They range from 4 (very good) to 1 (very poorly). Ratings, as well as weights, are assigned subjectively to each company.
- Score: Multiply weight by rating for each factor and each company.
- Total Score: The sum of the individual scores for each company. In our example, the strongest performer in the market is Rival A (2.8 points).

Why should one use a CPM?

- CPM uses the same factors to compare firms. This makes the comparison more accurate.
- The analysis displays the information on a matrix, which makes it easy to compare the companies visually and give you results as a simple number.
- The results of the matrix facilitate decision-making. Companies can easily decide which areas they should strengthen, protect or what strategies they should pursue.

Using a Competitive Profile Matrix (CPM)

- Identify the critical success factors: Including many critical success factors will make the CPM more robust and accurate. Brainstorm with other managers in your organizations which factors to include in the matrix. Examples can be market share, product quality, customer service, customer loyalty, financial position, profit margin, research and development spending, revenue per new product, skilled workforce, new patents per year, location, production capacity, price competitive, advertising budget, employee satisfaction, access to key suppliers, on-time delivery, innovation culture, etc.
- Assign the weights and ratings: Ratings and weights should be assigned using benchmarking or during team discussions. The best way to

identify what weights should be assigned to each factor is to compare the best and worst performing companies in the industry.

- Compare the scores and take action: You should compare the scores on each factor to identify where company's relative strengths and weaknesses are. Even if your overall score is good, there might be still room for improvement for some factors.

Balanced Scorecard

The Balanced Scorecard is a strategic performance management framework that has been designed to help an organization monitor its performance and manage the execution of its strategy. The Balanced Scorecard breaks performance monitoring into four interconnected perspectives: Financial, Customer, Internal Processes and Learning & Growth.

The elements of a Balanced Scorecard

- The Financial Perspective covers the financial objectives of an organization and allows managers to track financial success and shareholder value.
- The Customer Perspective covers the customer objectives such as customer satisfaction, market share goals as well as product and service attributes.
- The Internal Process Perspective covers internal operational goals and outlines the key processes necessary to deliver the customer objectives.
- The Learning and Growth Perspective covers the intangible drivers of future success such as human capital, organizational capital and information capital including skills, training, organizational culture, leadership, systems, and databases.
- If any other perspective is of vital importance for an organization, the Balanced Scorecard can be further expanded.

Benefits of Using Balanced Scorecards

Research has shown that organizations that use a Balanced Scorecard approach tend to outperform organizations without a formal approach to strategic performance management. The key benefits of using a BSC include:

- Better Strategic Planning: The Balanced Scorecard provides a powerful framework for building and communicating strategy. It forces managers to think about cause-and-effect relationships.

- Improved Strategy Communication & Execution: The fact that the strategy with all its interrelated objectives is mapped on one piece of paper allows companies to easily communicate strategy internally and externally.

- Better Management Information: The Balanced Scorecard approach forces organizations to design key performance indicators for their various strategic objectives. This ensures that companies are measuring what actually matters.

- Improved Performance Reporting: Companies using a Balanced Scorecard approach tend to produce better performance reports than organizations without such a structured approach to performance management.

How to create a Balanced Scorecard

The idea of the Balanced Scorecard is simple but extremely powerful if implemented well. As long as you use the key ideas of the BSC to (a) create a unique strategy and visualize it in a cause-and-effect map, (b) align the organization and its processes to the objectives identified in the strategic map, (c) design meaningful key performance indicators and (d) use them to facilitate learning and improved decision making you will end up with a powerful tool that should lead to better performance.

Key Performance Indicators (KPI) help organizations understand how well they are performing in relation to their strategic goals and objectives. In the broadest sense, a KPI can be defined as providing the most important performance information that enables organizations to understand whether the organization is on track or not. KPIs serve to reduce the complex nature of organizational performance to a small number of key indicators in order to make the performance more understandable and digestible for us. KPIs may include money earned, customer transactions in a day, the number of patients treated, incoming complaints or the number of service visits.

What is Operations Management?

Operations Management is an area of management concerned with overseeing, designing, and controlling the process of production and redesigning business operations in the production of goods or services. It involves the responsibility of ensuring that business operations are efficient in terms of using as few resources as needed and effective in terms of meeting customer requirements. Operations Management is concerned with managing the process that converts inputs (in the forms of raw materials, labor, and energy) into outputs (in the form of goods and/or services). Therefore Operations Management is closely related to Strategic Management.

Value Chain Analysis

The Value Chain Analysis (VCA) is a process where a firm identifies its primary and support activities that add value to its final product and then analyzes these activities to reduce costs or increase differentiation. Its goal is to recognize, which activities are the most valuable to the firm and which ones could be improved to provide a competitive advantage. In other words, by looking into internal activities, the analysis reveals where a firm's competitive advantages or disadvantages are.

A firm that competes through differentiation advantage will try to perform its activities better than competitors would do. If it competes through cost advantage, it will try to perform internal activities at lower costs than competitors would do. When a company is capable of producing goods at lower costs than the market price or to provide superior products, it earns profits. Michael Porter introduced the generic value chain model in 1985. Value chain represents all the internal activities a firm engages in to produce goods and services. VC is formed of primary activities that add value to the final product directly and support activities that add value indirectly. Below you can see the Porter's VC model.

1	Design & Engineering	Purchasing Materials & Components	Assembly	Testing and Quality Control	Sales and Marketing	Distribution and Dealer Support
2	$200.000,000 medium	$400.000.000 very important	$550.000.000 very important	$50.000.000 not important	$350.000.000 important	$100.000.000 less important
3	Number of new models Frequency of new models	Order size Location of suppliers	Capacity utilization Location of plants	Frequency of defects	advertising budget Strength of reputation	Number of dealers Sales per dealer
4	1. Locating plants near the cluster of suppliers or dealers reduces purchasing and distribution costs. 2. Fewer model designs reduce assembling costs. 3. Higher order sizes increase warehousing costs.					
5	1. Create just one model design for different regions to cut costs in designing and engineering, to increase order sizes of the same materials, to simplify assembling and quality control processes and to lower marketing costs. 2. Manufacture components inside the company to eliminate transaction costs of buying them in the market and to optimize plant utilization.					

(Example based on: R. M. Grant's 'Contemporary Strategy Analysis' p. 241)

Although primary activities add value directly to the production process, they are not necessarily more important than support activities. Nowadays, competitive advantage mainly derives from technological improvements or innovations in business models or processes. Therefore support activities are often the most important source of differentiation advantage. On the other hand, primary activities are usually the source of cost advantage, where costs can be easily identified for each activity and properly managed.

Performing the VCA analysis

There are two different approaches on how to perform the analysis, which depend on what type of competitive advantage a company wants to create (cost or differentiation advantage). The table below lists all the steps needed to achieve cost or differentiation advantage using VCA.

Cost advantage	**Differentiation advantage**
Step 1: Identify the firm's primary and support activities. This requires an adequate knowledge of the company's operations.	
Step 2: Establish the relative importance of each activity in the total cost of the product.	Step 1: Identify the customers' value-creating activities. These may be related to marketing or design.
Step 3: Identify cost drivers for each activity, i.e. by benchmarking against competitors.	Step 2: Evaluate the differentiation strategies for improving customer value, i.e. by adding more features
Step 4: Identify links between activities. Does cost reduction in one activity lead to further cost reductions or higher costs in other activities?	Step 3: Identify the best sustainable differentiation by linking activities.
Step 5: Identify opportunities for reducing costs. How will you improve the activities precisely?	

The above mentioned example illustrates the basic VCA for an automobile manufacturing company that competes on cost advantage. For simplicity reasons, it does not include the support activities.

Reminder:

Step 1: the company's primary activities.

Step 2: the relative importance of each activity in the total cost of the activities.

Step 3: cost drivers for each activity.

Step 4: Links between activities.

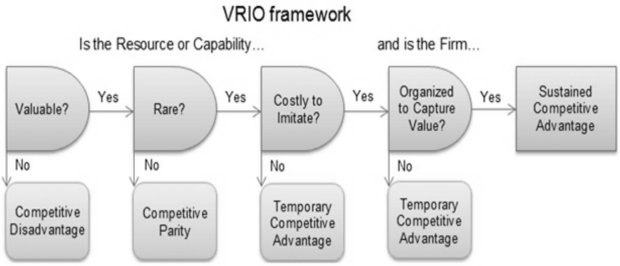
Step 5: Opportunities for reducing costs.

VRIO Analysis of Resources

The VRIO framework is a tool that is used to analyze a company's internal resources. It tries to find out if they can be a source of sustained competitive advantage. In order to become a source of sustained competitive advantage, resources must have three attributes: they need to be Valuable, Rare, and costly to Imitate. Additionally, a firm must be Organized to capture the value of the resources. A resource that meets all four requirements can bring sustained competitive advantage for the company.

The four elements of VRIO

- Valuable: The first attribute of the framework asks if a resource adds value by enabling a firm to exploit opportunities or defend against threats. If the answer is yes, then a resource is considered valuable. Resources are also valuable if they help organizations to increase the perceived customer value. This is done by increasing differentiation or/and decreasing the price of the product. The resources that cannot meet this condition, lead to competitive disadvantage.
- Rare: Resources that can only be acquired by one or very few companies are considered rare. Rare and valuable resources grant temporary competitive advantage. However, a firm should not neglect resources that are valuable but common. Losing valuable resources and capabilities would hurt an organization because they are essential for staying in the market.
- Costly to imitate: A resource is costly to imitate if other organizations are unable to imitate, buy or substitute it at a reasonable price. Imitation can occur in two ways: by directly imitating (duplicating) the resource or providing a comparable product/service (substituting).
- Organized to Capture Value: The resources itself do not confer any advantage for a company if it's not organized to capture the value from them. A firm must organize its management systems, processes, operations, and organizational structure to be able to fully realize the potential of its valuable, rare and costly to imitate resources. Only then the companies can achieve sustained competitive advantage.



Using the VRIO framework

- Identify valuable, rare and costly to imitate resources: There are two types of resources: tangible and intangible. Tangible assets are physical things like land, buildings, and machinery. Companies can easily by them in the market so tangible assets are rarely the source of competitive advantage. On the other hand, intangible assets, such as brand reputation, trademarks, intellectual property, unique training system or unique way of performing tasks, can't be acquired so easily and offer the benefits of sustained competitive advantage. Therefore, to find valuable, rare and costly to imitate resources, you should first look at company's intangible assets.An easy way to identify such resources is to look at the value chain. Value chain analysis identifies the most valuable activities, which are the source of cost or differentiation advantage. By looking into the analysis, you can easily find the valuable resources or capabilities. Also, ask yourself the following questions:
  - How many other companies own a similar resource?
  - Can a resource be easily bought in the market by rivals?
  - Can competitors obtain the resource in the near future?
  - Can other companies easily duplicate the resource?
  - Can competitors easily develop a substitute resource?
  - Do patents protect it?
- Find out if your company is organized to exploit these resources: Ask yourself the following questions:
  - Are there effective motivation and reward systems in place?
  - Does your company's culture reward innovative ideas?

- Is an organizational structure designed to use a resource?
- Are there excellent management and control systems?

- Protect the resources: When you identified a resource that has all 4 VRIO attributes, you should protect it using all possible means. After all, it is the source of your sustained competitive advantage. The first thing you should do is to make the top management aware of such resources and suggest how it can be used to lower the costs or to differentiate the products and services. Then you should think of ideas how to make it more costly to imitate.

- Constantly review VRIO resources and capabilities: The value of the resources changes over time and they must be reviewed constantly to find out if they are as valuable as they once were.

Example

Apple's capability evaluated using VRIO framework:

Apple's product design			
Valuable?	Rare?	Costly to imitate?	Is a company organized to exploit it?
Yes It is one of the main forces behind sales	Yes Competitors rather search price advantages	Yes The design is patented	Yes One of management's main focuses. Highly talented employees.

Break-Even Analysis

Operations managers have to make many decisions as they manage production processes and supply chains. The break-even analysis helps the manager to identify how much change in volume or demand is necessary before a second alternative becomes better than the first alternative.

To evaluate an idea for a new product or service, or to examine the performance for an existing one, the break-even analysis comes in handy. The break-even quantity is the production volume at which total revenues equal total costs.

Benefits of a break-even analysis

Computation of break-even points is very important for every business because it tells business owners and managers how much sales are needed to cover all fixed as well as variable expenses of the business. It tells exactly at which sales volume the business will start generating profit.

Carrying out a break-even analysis

First of all, you need to find information about the costs of producing a product. The total cost is typically split into fixed cost and the variable cost. The variable cost (c) varies directly with the volume of production, i.e. costs per unit for raw materials and

labor. Fixed costs (F) does not vary with the volume of production, i.e. facilities, machines, advertising budget. Since we want to know when total costs equal total revenues, we will use the following formula:

Total revenue = Total costs

Price * quantity = fixed costs + (variable cost * quantity)

Since we are interested in the quantity, we have to change this formula using basic algebra:

Quantity = fixed cost / (price – variable cost)

Example: How to find the break-even quantity?

Let's assume that you offer a product for $200 to your customers. Fixed costs are $100,000 per year and variable costs are $100 per product. What is the break-even point for this service (starting at which point will you be making money)?

Price: $200
Fixed costs: $100,000
Variable cost: $100
Quantity: ?
Quantity = fixed cost / (price – variable cost)
Quantity = $100,000 / ($200 – $100)
Quantity = 1000

You will break even at sales of 1000 products. If you sell less, you will lose money since the fixed costs are so high. If you sell more, you will start making money. Therefore it is vital for your business to match the break-even quantity.

Decision Tree

A decision tree method is a general approach to a wide range of processes and supply chain decisions, such as product planning, process capacity, and location. It is particularly valuable for evaluating different capacity expansion alternatives when demand is uncertain and sequential decisions are involved.

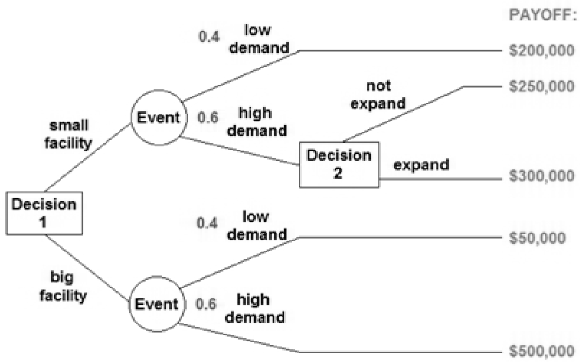
A decision tree is a schematic model of alternatives available to the decision maker, along with their possible consequences.

Example

You must decide between building a small or large facility. However, you are uncertain about the demand for your products. There is a 60% chance that demand will be high and a 40% chance that demand will be low. If demand proves to be high and you chose to build a small facility, you can choose to expand or not to expand. The expected payoffs are as follows:

- Large facility with high demand: $600,000
- Large facility with low demand: $500,000
- Small facility with low demand: $200,000
- Small facility with high demand, expanded: $400,000
- Small facility with high demand, not expanded: $300,000

Which option would you choose? A large or a small facility? Expanded or not expanded? A decision tree helps to transform this information into a simple graph:

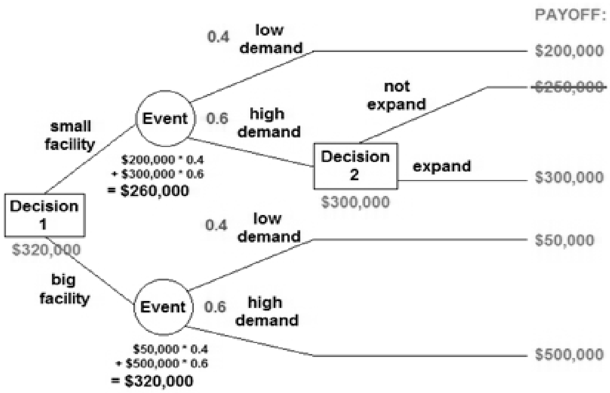


Building a big facility may seem tempting, as a payoff of $500,000 is possible. But it is also a risky choice since the payoff is only $50,000 if demand turns out to be low.
Using a decision tree

- After drawing a decision tree, you work from right to left.
- If there is an uncertain event, you multiply the pay-offs with the chances (i.e. 0.6 chance of high demand and 0.4 chance of low demand).
- If there is a decision point, you chose the decision with the higher payoff.

Let's see how this works for our decision tree:

- Decision 2: You can decide if you want to expand or not. Since the payoff is higher when you expand, you will always choose this decision. You can thus cross out the "not expand" option of decision 2.
- A small facility will have an average payoff of $200,000 * 0.4 (low demand) + $300,000 * 0.6 (high demand) = $260,000
- A large facility will have an average payoff of $50,000 * 0.4 (low demand) + $500,000 * 0.6 (high demand) = $320,000.
- Decision 1: Since the average payoff of a large facility is higher, you should choose this option.



Inventory Management: ABC Analysis

Typically, a company's has thousands if items held in its inventory. However, only a small percentage of them deserve management's closest attention and tightest control. An ABC analysis is the process of dividing the inventory units into three classes according to their dollar usage so that managers can focus on the items with the highest importance.

The elements of an ABC analysis

- Class A items: These items typically represent 20% of the items in the inventory but account for 70-80% of the dollar usage.
- Class B items: These items represent 30% of the items in the inventory but account for only 20-15% of the dollar usage.
- Class C items: These items represent 50% of the items in the inventory but account for only 5-10% of the dollar usage.

Benefits of this classification

The ABC-classification gives recognition to the varying importance of different types of inventory. Consequently, classifying items into A, B, and C allows management to better identify and control items of greater importance. Loss of control over a few Class A items is considerably more serious than the loss of control over a large number of Class B or C items.

Inventory Management: Reorder Point Model

The Reorder Point Model identifies the time to order when a stock level drops to a predetermined amount. This amount usually includes a certain quantity of stock to cover for the delay between order and delivery, the lead time, and stock to reduce the risk of running out of stock, the safety stock.

The Reorder Point Model permits you to:

- calculate when you need to make a new order to not run out of stock
- minimize inventory and stocking costs

Elements of the Reorder Point Model

- Lead Time is the interval between placing an order and having it ready for dispensing. When calculating lead times in a supermarket, for example, you must also consider the amount of time to stock the shelves.
- Safety stock is the extra units of inventory carried as protection against possible stock-outs. The safety stock must be carried when the manager is not sure about either the demand for the product or the lead time.

How to use the Reorder Point Model?

The reorder point is the inventory level at which it is appropriate to replenish stock. The calculation for this is as follows:

Reorder Point = Average demand during lead time + Safety stock

Example 1

You are selling a product. Typically the demand is 10 units per day. The lead time is 2 days. Your safety stock is 10 units. When should you place a reorder?

Reorder Point = Average demand during lead time + Safety Stock

Reorder Point = (10 * 2) + 10

Reorder Point = 30

You should place a reorder when your stock hits 30 units left for sale.

Example 2

A company is expecting 50,000 orders per year. The lead time is one month. There is no safety stock. When should the company place a reorder?

Reorder Point = Average demand during lead time + Safety Stock

Reorder Point = (50,000 / 12) + 0

Reorder Point = 4166.6

The company should place a reorder when its stock hits 4166 units left for sale.

So, Strategic Management is a continuous process of strategic analysis, strategy creation, implementation and monitoring, used by organizations with the purpose to achieve and maintain a competitive advantage. Operations Management is an area of management concerned with overseeing, designing, and controlling the process of production and redesigning business operations in the production of goods or services.

Project Management

Project Management is the collection of skills and processes required to define, plan, manage and deliver a project on time and within budget. Project managers must also be acutely aware what the planned outcomes and benefits are, however separate processes (and responsibilities) cover the core definition and achievement of these.

The origins of modern day Project Management

The term 'project' is used liberally today, often in ways that do not fit the original definition (e.g. more to every day or on-going work). Genuine projects are one-time efforts to develop something new, like a new software system, new bridge, a new product or process, or a major engineering facility. Today, many 'softer' activities inside businesses are also often referred to loosely as projects (such as change or business improvement programmes).

So what does it cover or include?

In truth it is a very broad subject and the term covers a wide range of skills, disciplines, and processes, which collectively cover the definition, planning, leading and managing of projects. There are many approaches or 'methods' for doing this. Many share common concepts or principles and in truth differ more in terminology, rather than fundamentally. Most 'methods' only emphasize processes or phases, but we prefer the above definition, as it conveys all of the most important elements together (i.e. process and key skills). As a subject, it is still being developed.

There will never and can never be one single method that can be universally applied (unless it is so high level to be of little practical use). This is because in business, projects span the entire spectrum of human activity, and there are significant differences from one environment to another. Industries have different priorities and needs, leading to variation in what they will and will not need to focus on. Many organizations, including established large-scale businesses, still have a long way to go to be fully satisfied with the way they are managed, or the outcomes they produce.

So let's look at each of these in more detail

Whether you are talking about Agile, or traditional methods, all projects benefit from the following, regardless of how it is achieved and the terminology being used. It is also fair and accurate to say, that too much of what is described in the following sections, still does not always exist (certainly to a good enough standard) far too often. What follows is a brief synopsis of what needs to be done.

Definition and Strategy:

before detailed planning is done, the following should be agreed and captured, even if to some people, much of the following appears to be obvious: why the project is necessary or is being done (it's amazing how many times this is not clear to all), its goal, specific objectives, target outcomes, planned benefits, and major expectations or needs of key stakeholders around the deliverables. Sometimes, much of this might be captured in a Business Case, especially when it requires major change, procurement or capital investment. Following definition, the delivery strategy should be reviewed, and again major decisions around this should be properly captured and analyzed especially from the perspective or risk. Too often this stage is not done formally enough, resulting in major risks going unnoticed.

Planning:

Planning is potentially a large-scale activity in itself, driven by the nature of the project. Again, regardless of method and terminology used (including Agile), all projects must plan and use the outputs of this phase as a central tool to manage. This includes: agreeing and capturing the scope of work, timescales or schedule, estimating and allocation of resources, and any other key activities that will need to be conducted (e.g. quality assurance and user or customer acceptance etc.). The collective output of the planning phase is sometimes referred to as the baseline plan (i.e. the delivery plan that is agreed to and formalized with the customer). The outputs of the planning phase will provide many of the inputs to the 'control' processes used during the delivery phase, regardless of whether we use "burn down charts" in Agile, or Earned Value metrics on a construction or Aerospace type project. In Agile, planning is a recurring activity around every iteration of product or subsystem (e.g. Sprint). For all others, (using more or a Waterfall type approach), planning is usually more of a discrete activity in itself, towards the front end of the life-cycle.

Project Leadership:

All but the simplest of projects will require or benefit from leadership driving it forward, setting the vision, its goals and literally leading the team from the front. In some Industries this would definitely be the project manager; in other industries, he/she has less of a high-profile role. It was debated in many circles for some time, whether this role is a leadership or management role. The truth is that it requires both in many circumstances. Lack of leadership 'presence' is a common cause of why some fail.

Project Control:

Due to their very nature (and the way most businesses manage them) projects rarely (if ever) go smoothly to plan. There are surprises, disappointments and issues, that must be managed, so that their impact is minimized or mitigated completely. On top of this, it is the responsibility of the PM function (note not just the project manager), to ensure that it is progressing according to plan, that risks and issues are being managed, and that timely corrective action is taken when required. Much of this is often referred to as 'control'. Increasingly today as well, the role of the project management function is to

develop an environment where teams can be productive and successful. This is also the most important challenge (or task) on many (if not all) projects in business today.

Origins of Modern Day Methods:

The main concepts that are embedded in most modern-day PM approaches originated from work on industrial projects in the USA between the 1940s to 1960s, following the development of earlier management concepts, principles and tools. For example Henry Gantt (1861-1919) is often quoted as one of the fathers of PM and is said to have created the Bar Chart, which is very commonly used today. It is probably the single biggest PM tool in use today; and Henri Fayol, who developed the origins of what is now known as plan-do-check.

Kelly Johnson was an innovative and gifted aeronautical engineer who ran the 'Advanced Development Programs' division of Lockheed Martin (known as the Skunkworks ®) from 1943-1975. He was known as an 'organizational genius' – a useful and still today far too underrated skill in being an effective project manager. Early in this period, he introduced 14 Rules of Management (for development programs), which included:

- "The Skunk Works (project) manager must be delegated practically complete control of his program in all aspects.
- There must be a monthly cost review covering not only what has been spent and committed but also forecast costs to the conclusion of the program.
- The contractor must be delegated and must assume more than normal responsibility to get good vendor bids for sub-contract on the project.
- There must be mutual trust between the military (customer) organization and the contractor, and very close cooperation and liaison on a day-to-day basis. This cuts down misunderstanding and correspondence to an absolute minimum."

Bearing in mind when the above was introduced and what typically prevailed at the time, it was unique and hugely far-reaching and still underpins today some of the best practices and far outstrips common practices across entire industries still today. In terms of impact and delivery performance, in 1943 the XP-80 aircraft (the USA's first jet fighter) was delivered (by a team managed personally by Johnson) in only 143 days, seven less than planned.

The Polaris program of the 1950's is often quoted for its use of the PERT technique, which was again ground breaking and significant. PERT (Program Evaluation and Review Technique) addressed the modelling of timescales (especially where significant uncertainty exists). PERT was and still is an excellent technique, but ultimately proved too complex for most organizations to adopt and was superseded (in take up terms) by the more simple critical path method, as developed originally by a joint venture between DuPont and Remington Rand Corporation for managing major plant maintenance efforts.

Going back to Polaris, perhaps far more significant though, was the aim of "Organizational autonomy" and the awareness of the need to manage the conflicting agendas and requirements even among the prime customer itself. Again, a challenge that is not always dealt with effectively and sometimes not faced up to (openly) at all today, at the right stage of the life-cycle.

1967 saw the US Department of Defense introduce the origins of C/SCSC (now called Earned Value management), and our reason for including this is not so much the technique itself (even though it is still a best practice for certain industries today), but the much discussed original 'criteria' that were also published (which are just as valid today) which define many best practices in establishing management control systems in large-scale projects. Today these are referred to in EVM standards (such as ANSI 748) as EVM guidelines.

Finally, it was French Engineer and management Scientist Henri Fayol (1841-1925) who developed the foundation of what still stands today as the core behind the structures of the Bodies of Knowledge in the most prominent professional associations around the globe, including PMI from the USA and APM from the UK, being to *plan*, *organize*, *control* and *co-ordinate*.

The Role of the Project Manager:

Earlier we hinted that on larger projects, not all of the management process will always be done by the project manager themselves. However, they must always be responsible for ensuring it is well planned and managed, and that these processes are being carried out to a good standard. The full role of the project manager is not greatly understood in many businesses still today. It is also true that too many (even in high-profile businesses) are appointed with almost zero science behind their selection, and most are given very little or even close to nil formal preparation for this challenging role. It is almost assumed by far too many businesses that anyone of a certain grade can be a successful project manager. This is a very poor assumption to make, and can on its own be a major challenge or source of issues in any business.

One of the key concepts that PM introduced decades ago, was single point responsibility in one person, who is of course the project manager. This is something that still gives organizations a major challenge, today. Entire industries have yet to get to grips with this concept, because of their structures, cultures and the 'political' challenge that must be overcome for this to become a reality. There may be someone given the title, but many other people and even bodies make all the key decisions. This falls far from the original intent and typically results in delays at the very least.

Evidence suggests that they work best when responsibility for managing them and for decision-making is embedded directly in the core team, and is available to them at all times. Approaches such as Agile always look to achieve this. If a project manager has to constantly refer out to committees on all issues and key decisions, there is a danger they can become little more than a coordinator, and, this typically results in a cumbersome and very slow decision-making process (often coinciding with a major de-scoping of certain types of projects).

Great project managers are worth their weight in gold in business, but in truth they are few and far between.

PM Trends through recent decades

1970s – The Advent of Professional Bodies and Associations

In the US the PM Institute (PMI) originated from a meeting of a just a few people in 1969, and through the 1970's developed into a formal Professional Association. In the UK, the Association for PM (APM) was founded in 1972. One of the most landmark milestones for both Associations was the development and publication of a Body of Knowledge (BoK), defining their interpretation of the discipline (as it is now known) of project management. Both Associations maintain and continue to update their BoKs to reflect the development of current practices and to ensure they are more reflective of the broad range of industries and other types of organizations that wish to embrace the 'discipline' today.

1980s – The advent of PM systems and software

During the 1980s, driven by the advent of mini and personal computers, many more businesses started building their own software applications for key business functions including PM. There was a culture in most corporations of building as opposed to buying applications at this time, supported by a desire by most businesses wanting to build a project management system that matched their specific needs and requirements. During this period, it was very common to do this, as leading PM software systems at that time, were in truth 3GL language systems, together with the core algorithms that separate PM systems from all other database applications (i.e. critical path analysis and resource scheduling).

The new graphics capability that they introduced transformed the ability to summarize and present key aspects of PM data graphically, change the data and instantly see the results again, graphically. We all take this for granted today but at this time, it was a ground breaking change in capability and speed (of data analysis and presentation). Capabilities were introduced that became quite commonplace, many of which have declined, driven in part by a big swing towards low-end project management software products, commonly in use now for many years. During this period, formal project management disciplines were only recognized and carried out in a small number of industries, usually with large-scale traditional projects, such as Petrochemical, Aerospace and Defense, and pockets of other industries. Towards the back-end of this decade, the method started to spread into many other industries in a much more formal way.

1990s – The rise of Corporate Methodologies

During this decade, many organizations (and especially those who were new to the topic) started to develop formalized methodologies for their own business. Probably the biggest single lesson should stem from this work. For every organization that spent considerable amounts of time and money trying to define in some detail exactly how

projects should run, very few ever managed to make them run as defined in their 'methodologies'.

The reasons behind this are arguable, but undoubtedly include lack of Governance (still an issue today in many businesses) and also perhaps the most significant is the lack of awareness and skills by too many people in the business to manage them in the way their organizations expected. It is also true that you cannot define a series of steps that will always be right for every project, regardless of how attractive that idea may appear. In essence most methodologies became 'shelfware', only to be aired (often embarrassingly) at times like audits and inspections.

2000 and beyond: The advent of Agile and Certification

2001 saw the birth of the origins of Agile, but it was not until the end of this decade that Agile started to gain real momentum in both take up and maturity of understanding of both what Agile does and does not mean. Agile contains some great ideas – but like all great ideas that center around a management concept, the idea needs to be properly understood and implemented. Those who think that the advent of Agile means the end of planning for example are mistaken, and often do not see the corresponding benefits in improved delivery performance that Agile promises.

In Agile we still plan, and we still need information on progress (e.g. Burndown charts etc.) as a core part of managing the delivery process. They just (hopefully) do it with the minimum of bureaucracy, simple tools and processes. To be successful, they also still require a lot more than is typically defined around Sprints and SCRUM. Introducing Sprints alone does not mean you are using an Agile development process.

Lastly, we could not do a piece like this without mention PM Certification – certification abounds today – some might say too far. Why would an organization that should benefit from Certification business wise say this?. In principle, PM Certification is a good thing. Having qualified people cannot be bad, assuming the qualification process is totally fit for purpose.

PM Certification is relatively new, and some display their lack of maturity. For example: project management is not a binary science. It requires lots of things like judgement and it can be very hard to compose multiple choice questions (in large numbers) that carry true academic rigor and have only one very clear correct answer. Any reader who has recently sat such an exam may well recognize this. Industry variation matters as well – what is clearly the only correct thing to do in one industry, may be exactly the wrong thing to do in another. Reflecting and recognizing this in certification exams can be very challenging. The other main question is that testing aspects like the organizational skills of Kelly Johnson above is very hard in the most common type of certification exams that predominate today. At its very best, project management is an organizational discipline. Having qualified people can be a very good thing, but on its own does not necessarily provide an environment in business where projects can succeed. They will always be challenging, and sometimes in business, we ourselves make them much harder than they need to be.

Some Example of best practices

The following is a small sample of best PM practices – we have chosen the following because of their broad application:

1. **Focus on outcomes and benefits:** In the past decade, there has been a real focus on the outcomes and benefits that certain types of projects are intended to achieve. This is a major shift in thinking for lots of people, and not something that happens very often today or by itself.
2. **Co-location:** For at least key parts of the life-cycle or more – it's not always possible but when teams do this, the results can speak for themselves. In essence, communication lines are shortened and two-way communication can become the norm. This is always going to deliver far better results and a far more productive development environment.
3. **Single integrated teams:** This has been given many names and is central to many important PM initiatives in the last 20 or more years (Agile more recently and Integrated Product teams to name just two). The principle that potentially translates into practices, behaviors and clear benefits is that the project operates as one team, where for example users and developers work together constantly to define requirements and make key decisions in a collaborative way throughout the development phase. The acid test (which is beyond the appetite of many businesses) is: one plan and one version of the truth every day across the whole team.
4. **Bringing PM into the day-to-day:** Moving away from mainly relying on monthly (or even weekly) meetings or processes to something where there is daily communication around progress and issues, can on its own make a huge difference in performance. The most common example is Daily Stand-ups (which Agile did not invent but many Agile methods use) where all key parties, including those with decision-making authority, participate in this process.
5. **Moving back from deterministic to more realistic planning:** A little 'techy' but very important. Too many projects in the recent past have been planned using deterministic (single point) values, relating to time and cost, as if the plan speaks with absolute certainty at the outset. Some businesses may feel some form of comfort factor by adopting this approach – in reality it typically fosters the wrong attitude towards the whole nature of projects and what's required to manage them successfully. Recently, the re-introduction and adoption of 3 point estimates is one productive example of the reversal of this poor practice.
6. **The development of project risk management since the 1990s**. In 1996 the British Standards Institute published its first standard on PM: BS 6079. A couple of years later, they published a substantial addendum, entitled the "Management of Project Related Risk". Speaks volumes about the general level of understanding and application of this important topic at the time. Organizations where there is real evidence of attention to this topic, typically have far more success, and suffer far fewer (often avoidable) surprises, the impacts of which are usually measured in cost and schedule terms.

PM Lessons learned:

1. Many businesses which had been using PM practices heavily as part of the day-to-day business of delivering projects quietly and very successfully, never felt the need to write a PM methodology, and never did. They had PM practices embedded into their culture and day-to-day ways-of-working, and often delivered projects very successfully.
2. Many businesses that spent considerable time and money on developing corporate PM methodologies, in practice never used much of what those methodologies contained, and many of those same organizations also failed to embed PM practices into their businesses. These businesses usually struggle to deliver projects successfully.
3. And this is still valid today, too many project managers don't fully understand and execute the fundamentals of effective project management – and many of their efforts suffer great variation in results.

Here's an interesting question. How do you *find* and *develop* great project managers in business? Firstly, what do we mean by find? Let's be very honest – not everyone makes a good, let alone a great project manager. It requires an unusual combination of skills that you simply don't find in very many people.

Project Manager

Too many people still find their way into project management more by accident than design. By this we mean they are *not* first appointed to the role after a formal appraisal of their competencies, followed by careful coaching or mentoring etc. They may even find themselves in the role purely due to circumstances, rather than anything else, often all of a sudden with little if any preparation. They may not even have expressed a particular interested in this challenging role, although ambitious people rarely turn down such opportunities (especially when it's the boss who is asking, as it usually is).

The next best thing on the not to do list, is don't jump in at the deep end. For example, if we have never worked on projects, let alone managed one, becoming the project manager of anything significant is going to be extremely challenging. Like anything in life, the first time we do something, we learn lots of things we never knew before, and on projects that will include many things we did not expect to. That's a perfect way to describe what working on or *especially* managing projects is like – but hopefully not on the first project you manage.

So let's look at what would work:

Here's one great way to learn (if the opportunity is open to you) – work closely alongside an experienced and successful project manager, preferably on the project itself. Watch really closely everything they do – watch what they don't do as well – ask them questions – lots of questions. If they are a good project manager, they usually won't mind at all. It's also a way to try and assess for yourself (and perhaps for other to assess too) if you have the right combination of skills that great project managers need. It's an unusual skill set and not one that is found in many people, so there is no shame if someone does not prove to be a good fit for this often challenging role.

Moving on then, as a business, how do we improve:

1. the identification of candidates who might be good at this, and
2. the development of people who have *demonstrated* real *potential* at least?

The short answer is we must develop formal selection and assessment processes that are effective at finding people who have the unusual combination of skills required, and who really want to take on this role. One without the other is often useless. This is not achieved by a simple interview or discussion. It has to be far more comprehensive and rigorous. In other words, a proper assessment process that reflects the true needs of project managers in your business. Being realistic, you should expect a fairly low success rate as well. For every 100 people who go through such an assessment, a low number will be genuine candidates at the other end.

Mentoring and sharing of knowledge:

For those who are successful, having a multitude of ways to develop people would be perfect. For example, offering mentoring, for those who wish to take advantage of this, would be a great idea. Forcing everyone to do this would not. You could offer forums, even professional (online) networks for people to develop relationships and knowledge, recognizing that this is informal and works for some, not so well for others. You could also offer periodic development and knowledge sharing activities, e.g. quarterly or even monthly etc, where people hopefully do something structured and productive on a face-to-face basis preferably, or at least in an interactive way.

Traditional development still has its place:

Finally, you could also offer formal training and development – this can be very valuable, but we must also recognize one thing. Most project management training courses last 1, 2 or 5 days. If you pick a great course it can be a very good use of your time, and you can learn a number of (hopefully very) useful things in a few days and you can accelerate your learning. However, it takes years to develop or become a *great* project manager.

Responsibilities of Project Manager

There are many variations in interpretation of the role of a Project Manager, especially by PMs themselves. What follows in this post is our interpretation, but it is based on what we have seen delivers by far the best results (i.e. from projects).

Origins of the Role

One of the most important aspects of the role of a project manager was the introduction of a single point responsibility for a project, namely the project manager. When this does not emerge for whatever reason, projects can struggle, or even fail.

Key responsibilities:

The following will vary and be influenced by project and domain, but in principle it will apply to most projects:

- confirm the objectives and planned benefits of the project
- define the scope of the project, and if not already in place the delivery strategy;
- develop an effective organization for the project including all key roles and responsibilities;
- plan the project (with the input and often support of others);
- develop financial and budget controls for the project;
- define and develop the management processes to be employed (if they don't exist and match the needs of the project already);
- lead the team in all phases of the project;
- ensure risks are understood and are being mitigated successfully;
- communicate with and manage stakeholders;
- regularly assess progress in relation to plan and implement appropriate control processes;
- monitor project cost and budget performance (i.e. workscope achievement relative to budget);
- ensure relevant reports (e.g. relating to progress etc.) are periodically produced;
    - more common in Customer projects – less common for internal ones
- liaise and negotiate with any internal or external party or partner as required;
- ensure all issues are being managed in the most timely manner;
- develop recovery plans when a project is not expected to meet any of its targets or constraints.

The above is a fairly standard list but:
for any project based business to be successful accountabilities of project managers need also to be defined, in as clear as possible terms, as is evidenced by our post on lessons learned.

Accountabilities of Project Managers

This is a complex question that benefits from starting with some core principles. Project management was founded on a number of first principles, one of which was single-point-responsibility for projects. Business life is complex and it would be unreasonable to

'blame' a project manager for all issues on a project, as projects by nature carry inherent uncertainty.

It would be entirely correct however, to clarify to project managers what their accountabilities are, especially if a project suffers from issues that known to be common challenges to projects. If any of those challenges are happening or expected to, the Project Manager must address them. Another way of expressing this is saying that PMs are responsible for creating an environment where these issues are less likely to occur.

The responsibility of a project manager is broad – when they delegate a task to anyone, they retain their accountability for the project's success. Great project managers understand that, and their behaviors demonstrate this.

Responsibilities of Project Managers-v-Project Boards

Some organizations (or PM methodologies) advocate having a project manager and a Project Board. This can work but it can also complicate the role of a project manager and in worst cases, PMs end up doing little more than reporting (progress etc.) to Project Boards. If this occurs it can be a major constraint on successful project delivery. Establishing thresholds for reporting (between PMs and Project Boards) can also be counter-productive.

Project Managers need to be, feel and behave as if they are responsible for the project's success.

They must be responsible for developing an environment where a project can succeed, ensure transparency regarding progress and all issues (the good, the bad and the ugly) and keep the team focused on delivering the outcomes the project is intended to achieve.

Leadership and Team working

People deliver projects, not processes. Successful project management (or is it leadership) requires a combination of 'hard' and 'soft' skills. Achieving the right level of consistency of "methods" on projects through common processes is important. However, if a project environment does not demonstrate true 'team spirit', *especially* in challenging times, it is highly likely that you will be able to measure the impact on the delivery performance of the project in cost and schedule terms.

A healthy project environment is created where there is a combination of effective leadership, together with competence in areas often described as 'soft skills'.

The ideal project environment is where Team members are:

- invited to contribute towards key decisions
- party to the 'bigger-picture', and don't operate in isolation
- informed why decisions are made, not just what they are
- encouraged to highlight risks and issues
- supportive of each other

and, there is:

- respect for each other and the team leader
- openness and honesty despite the level of challenge or issue.

Project Leadership

Great project managers understand project management concepts and techniques, but perhaps more importantly, provide effective leadership.
Leadership is very hard to define, but easy to notice when it is lacking. Effective leadership involves:

- motivation
- open communication
- effective delegation
- decision making
- being consistent
- being prepared to deal with issues and confronting situations
- involving the team in decisions while being prepared to make tough decisions
- being able to admit you are wrong if necessary
- leaving your ego at home!

Project Team working

Much is written about team building, which has an important role where relationships are not mature, as is typical at the start of projects.
There is also the related topic of team working. Team building has its place at certain stages, to develop relationships, but team working applies to the practices and behaviors in evidence on a day-to-day basis, throughout the life of the project.

A decade ago a famous piece of research coined the expression ‘high performance teams’. While this may be the pinnacle, most businesses should aim for minimum standards of team working to be achieved on all key projects. Where there are indications of issues with team working, it should be recognized as a major risk to a project. This applies to all key relationships, including those with external customers, suppliers and stakeholders.

One of the most important responsibilities of the project manger is to align and manage the expectations of all stakeholders, and to develop a common set of objectives for the project. Understanding and working towards a common and clear set of objectives is the single most important attribute of positive team oriented behavior. Therefore, this must be one of the most important aims and responsibilities of a project manager.

Project Communication

Most people respond positively to being kept informed, while old fashioned management wisdom might say ‘managers manage’ and others ‘do’. If this happens, it can result in communication vacuums, which is the opposite of best project management practice.

Communication is the lifeblood of projects. Open communication must be encouraged and managed. To avoid information overload, there are practices that can be employed, aligned to effective team based organization, that encourage effective communication.

Good personal communication skills are also vital if teams are to make effective and efficient progress. There are many forms of communication, but the most important, and sometimes the least practiced, is listening . Lack of care and attention to communication skills and processes can cause major risks and issues on projects the results of which are often measured in delays and additional work.

Thank You

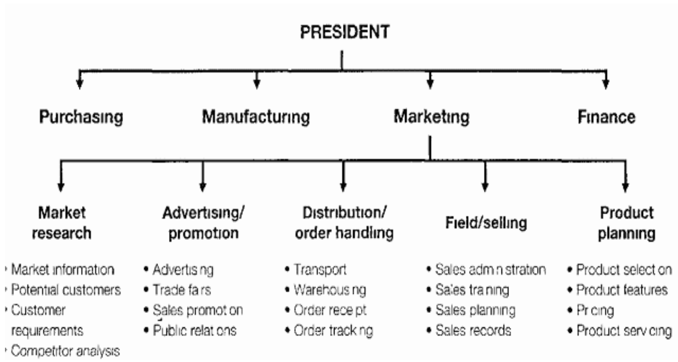
Day 08

Marketing and Communications

—Introduction—

Welcome to **Marketing and Communications** ! From a societal point of view, marketing is the link between a society's material requirements and its economic patterns of response. Marketing satisfies these needs through exchange processes and building long-term relationships. Marketing can be looked at as an organizational function and as a set of processes for creating, delivering and communicating value to customers, and managing customer relationships in ways that benefit the organization and its shareholders. Marketing is the science of choosing target markets through market analysis and market segmentation, as well as understanding consumer buying behavior and providing superior customer value.

The set of engagements necessary for successful marketing management include capturing marketing insights, connecting with customers, building strong brands, shaping the market offerings, delivering and communicating value, creating long-term growth, and developing marketing strategies and plans.



Every organization has a set of functional areas (e.g. purchasing, manufacturing, finance, human resources, marketing, etc.) in which tasks that are necessary for the success of the organization are performed. These functional areas must be managed if they are to achieve maximum performance. Marketing differs from the other functional areas in that its primary concern is with exchanges that take place in markets outside the organization (e.g. customers, competitors, public relations, transport, etc.).

Marketing as a Source of Competitive Advantage

The specific role of marketing is to provide assistance in identifying, satisfying, and retaining customers. Noted Harvard Professor of Business **Theodore Levitt** states that the purpose of all business is to "find and keep customers". Furthermore, the only way you can achieve this objective is to create a competitive advantage. That is, you must convince potential buyers that what you have to offer them comes closest to meeting their particular need. Hopefully, you will be able to provide this advantage consistently, so that eventually the customer will purchase your product without considering alternatives.

Demand, Need, and Want

Demand is the economic principle that describes a consumer's desire, willingness and ability to pay a price for a specific good or service. A firm in the market economy survives by producing goods that are in demand by consumers. Consequently, ascertaining consumer demand is vital for a firm's future viability. Many companies today have a customer focus. In this approach, consumer needs are the drivers of all strategic marketing decisions. Every aspect of a market offering, including the nature of the product itself, is driven by the needs and wants of potential consumers.

A need is a consumer's desire for a product's or service's specific benefit, whether that be functional or emotional. The emotional benefit tends to be a stronger driver for consumers, as functional benefits can be easily copied by competitors. On the other hand, a consumer want is the desire for products or services that are not necessary, but which consumers wish for. For example, food is considered a consumer need. However, a steak dinner or dessert is considered a consumer want, as these things are not necessary in order to live.

The Customer Decision Process

There is a five step process that consumers can go through in making a purchase decision. These steps include:

1. **Need Recognition**
The customer decision process begins with need identification. Whether we act to resolve a particular problem depends upon two factors: the magnitude of the discrepancy between what we have and what we need, and the importance of the problem. This involves the concept of consumer motivation, which is the internal drive consumers experience to fulfill conscious and unconscious wants and needs. Once the problem is recognized, it must be defined in such a way that the consumer can actually initiate the action that will bring about a relevant solution.

2. **Information Search**
The next step is information search and processing. After a need is recognized, the prospective consumer may seek information from family, friends, personal observation, consumer reports, salespeople, or mass media. The promotional component of the marketer's offering is aimed at providing information to assist the consumer in their problem-solving process. If the buyer can retrieve relevant information about a product, brand, or store, he or she will apply it to solve a problem or meet a need.

3. **Evaluation**
The criteria used in the evaluation of alternatives vary from consumer to consumer. One consumer may consider price the most important factor while another may put more weight upon quality or convenience. The search for alternatives is influenced by such factors as time and money costs, how much information the consumer already has, the amount of the perceived risk if a wrong selection is made, and the consumer's disposition toward particular choices.

4. **Purchase**
During the purchase phase of the decision-making process, the consumer may form an intention to buy the most preferred brand because he has evaluated all the alternatives and identified the value that it will bring him. Anything marketers can do to simplify purchasing will attract buyers. Providing basic product, price, and location information through labels, advertising, personal selling, and public relations is an obvious starting point. Product sampling, coupons, and rebates may also provide an extra incentive to buy.

5. **Post-Purchase Evaluation**
A consumer's feelings and evaluations after the sale come into play during the post-purchase phase. These feelings can influence customer retention and influence what the customer tells others about the product or brand. The marketer may take specific steps to reduce post-purchase dissonance. Advertising that stresses the many positive attributes or confirms the popularity of the product can be helpful.

Precautions of a Customer Focus

Customer focus should be treated as a subset of the corporate strategy rather than the sole driving factor. This means looking beyond current-state customer focus to predict what customers will demand in the future, even if they themselves discount the prediction.

Companies should pay attention to the extent to which what customers say they want does not match their purchasing decisions. Surveys of customers might claim that 70% of

a restaurant's customers want healthier choices on the menu, but only 10% of them actually buy the new items once they are offered. Truly understanding customers sometimes means understanding them better than they understand themselves.

Customers can be currently ignorant of what a company might argue they should want. IT hardware and software capabilities and automobile features are examples. Customers who in 1997 said that they would not place any value on Internet browsing capability on a mobile phone, or 6% better fuel efficiency in their vehicle, might say something different today, because the value proposition of those opportunities has changed.

Four Ps of Marketing

The four Ps are the categories that are involved in the marketing of a good or service, and they include product, price, place and promotion. Often referred to as the marketing mix, the four Ps are constrained by internal and external factors in the overall business environment, and they interact significantly with one another.

Product

Product refers to a good or service being offered by a company. Ideally, a product should meet a certain consumer demand, or it should be so compelling that consumers believe they need it. To be successful, marketers should understand the life cycle of a product, and business executives should have a plan for dealing with products at every stage of their life cycles. The type of product also partially dictates how much businesses can charge for it, where they should place it, and how they should promote it.

Price

Price is the cost consumers pay for a product. Marketers must link the price to the real and perceived value of the product, but they also must take into account supply costs, seasonal discounts, and prices used by competitors. In some cases, business executives may manipulate a price to make a product seem more like a luxury, or they may lower a price so that more consumers can try the product.

Place

Place decisions outline where the product is sold and how it is delivered to the market. The goal of business executives is to get their products in front of the consumers who are most likely to buy them. In some cases, this may refer to placing a product in certain stores, but it also refers to the placement of the product on a store's display or where a product is showcased on a web page. In some cases, placement may refer to the act of placing a product on TV shows, films or blogs in order to garner attention for the product, but this type of placement overlaps with promotion.

Promotion

Promotion includes advertising, public relations and promotional strategy. This ties into the other three Ps of the marketing mix, as promoting a product shows consumers why they need it and why they should be willing to pay a certain price for it. In addition, marketers tend to tie promotion and placement elements together so they can reach their core audiences.

SIVA Model

SIVA is a formal approach to customer-focused marketing. It stands for Solution, Information, Value, and Access. This system is basically the four Ps renamed and reworded to provide a customer focus. The SIVA Model provides a demand and customer-centric alternative to the well-known four Ps supply side model of marketing management.

Solution

The "**Product**" in the four Ps model is replaced by "**Solution**" in order to shift focus to satisfying the consumer needs. The product is no longer a one-size fits all offering, but rather a solution created to solve a problem for the customer. The customer-centric focus allows customers to feel cared for because they are offered a custom solution.

Information

The "**Promotion**" in the four Ps model is replaced by "**Information**," which represents a broader focus. Information can include advertising, public relations, personal selling, viral advertising, and any form of communication between the firm and the consumer. The "I" also stands for "Incentives," such as trade promotions. A trade promotion is a marketing technique aimed at increasing demand for products based on special pricing, display fixtures, demonstrations, value-added bonuses, no-obligation gifts, et cetera.

Value

The "**Price**" in the four Ps model is replaced by "**Value**," reflecting the total value gained through purchasing the product. Value can be defined as the extent to which goods or services are perceived by customers to meet their needs or wants. It refers to the benefits a buyer receives when their needs are met. Value is measured in terms of a customer's willingness to pay for a product, and often depends more upon the customer's perception of a product's worth rather than its intrinsic value. These perceptions can be in regard to tangible and intangible benefits that a product offers. Many factors affect value, including the customer's cost to change or implement the new product or service and the

customer's cost for not selecting a competitor's product or service. Cost in these cases can be defined in any terms applicable to the customer: it can be a monetary, time, effort, opportunity cost, or some combination of those.

Access

The "**Place**" in the four Ps model is replaced by "**Access**". With the rise of the Internet and hybrid models of purchasing, geography is becoming less relevant. Access takes into account the ease of buying the product, finding the product, finding information about the product, and several other factors. Access also refers to the channels of distribution associated with a product. Distribution channels move products and services from businesses to consumers and to other businesses. These channels typically are composed of a set of interdependent organizations, such as wholesalers, retailers, and sales agents.

The Exchange Process

The exchange process is the act of obtaining a desired object from someone by offering something of value in return. The exchange between the person in need (i.e., someone who offers money or some other personal resource) and the organization selling the product, service, or idea results in a transaction. The top goal of any marketing organization is to facilitate and help increase sales transaction by convincing potential consumers and existing customers to buy their company's product or service.

With the emergence of the Internet and e-commerce during the 1990s, the nature of the marketing exchange for businesses and customers has changed drastically. Today's consumers have access to far more and far better information. They also have many more choices. Businesses must provide personalized, relevant and high quality content that competes with a fast, ever-changing competitive landscape.

Trade-Off Analysis

The exchange process allows the parties to assess the relative trade-offs they must make to satisfy their respective needs and wants. For the marketer, analysis of these trade-offs is guided by company policies and objectives. For example, a company may engage in exchanges only when the profit margin is 10% or greater. Buyers also have personal policies and objectives that guide their responses in an exchange. Unfortunately, buyers seldom write down their personal policies and objectives. Even more likely, they often do not understand what prompts them to behave in a particular manner. This is the mystery, or the "black box" of buyer behavior that makes the exchange process so unpredictable and difficult for marketers to understand.

Understanding Buyer Behavior Will Jumpstart the Exchange Process

When we use the term "buyer", we are referring to an individual, group, or organization that engages in market exchange. In fact, there are differences in the characteristics of

these three entities and how they behave in an exchange. Therefore, individuals and groups are traditionally placed in the consumer category, while organizations are placed in the second category.

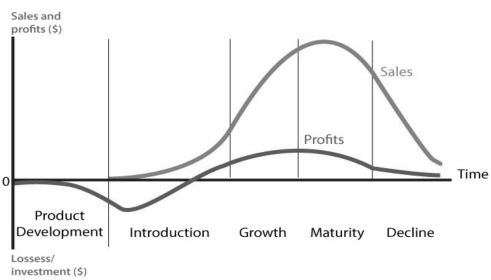
When potential buyers are not satisfied, the exchange falters and the goals of the marketer cannot be met. As long as buyers have free choice and competitive offerings from which to choose, they are ultimately in control of the marketplace. The potential buyers, in commercial situations, "vote" (with their dollars) for the market offering that they feel best meets their needs. An understanding of how they arrive at a decision allows the marketer to build an offering that will attract buyers. Two of the key questions that a marketer needs to answer relative to buyer behavior are:

- How do potential buyers go about making purchase decisions?
- What factors influence their decision process and in what way?

The answers to these two questions form the basis for target market selection, and, ultimately, the design of a market offering.

Marketers use a variety of promotional tools to "nudge" consumers who intend to buy but decide to purchase at a later time due to internal or external factors (e.g., loss of job, retail store closing, etc.). To successfully guide consumers through the buying process, marketers attempt to make products and services more appealing by offering credit or payment terms, sales promotions, rebates, and other premiums to convince consumers to buy now rather than later. Complimentary perks and services such as add-on features and lifetime warranties are other tactics used by brands to sell product and service benefits to consumers.

The Product Life Cycle



A new product progresses through a sequence of stages from introduction to growth, maturity, and decline. This sequence is known as the product life cycle and is associated with changes in the marketing situation, thus impacting the marketing strategy and the marketing mix. The product revenue and profits can be plotted as a function of the life-cycle stages as shown in the graph above.

Introduction Stage

In the introduction stage, the firm seeks to build product awareness and develop a market for the product. The impact on the marketing mix is as follows:

• Product branding and quality level is established and intellectual property protection such as patents and trademarks are obtained.
• Pricing may be low penetration pricing to build market share rapidly, or high skim pricing to recover development costs.
• Distribution is selective until consumers show acceptance of the product.
• Promotion is aimed at innovators and early adopters. Marketing communications seeks to build product awareness and to educate potential consumers about the product.

Growth Stage

In the growth stage, the firm seeks to build brand preference and increase market share.

• Product quality is maintained and additional features and support services may be added.
• Pricing is maintained as the firm enjoys increasing demand with little competition.
• Distribution channels are added as demand increases and customers accept the product.
• Promotion is aimed at a broader audience.

Maturity Stage

At maturity, the strong growth in sales diminishes. Competition may appear with similar products. The primary objective at this point is to defend market share while maximizing profit.

• Product features may be enhanced to differentiate the product from that of competitors.
• Pricing may be lower because of the new competition.
• Distribution becomes more intensive and incentives may be offered to encourage preference over competing products.
• Promotion emphasizes product differentiation.

Decline Stage

As sales decline, the firm has several options:

• Maintain the product, possibly rejuvenating it by adding new features and finding new uses.
• Harvest the product – reduce costs and continue to offer it, possibly to a loyal niche segment.
• Discontinue the product, liquidating remaining inventory or selling it to another firm that is willing to continue the product.
• The marketing mix decisions in the decline phase will depend on the selected strategy.

For example, the product may be changed if it is being rejuvenated, or left unchanged if it is being harvested or liquidated. The price may be maintained if the product is harvested, or reduced drastically if liquidated.

Evolution of Marketing

The evolution from production-oriented organizations to marketing-oriented organizations was driven by a shift toward a marketplace that catered to meeting customer wants and needs rather than strictly delivering product features and functionality. In today's business world, it can be argued that customer desires, concerns, and opinions, rather than industry profits, are the driving force behind many strategic business decisions.

Changing Focus

Product Orientation

The product orientation of marketing focuses solely on the product a company intends to sell. This orientation was popular during the 1950s and into the 1960s. A firm employing a product orientation is chiefly concerned with the quality of its product. A firm such as this would assume that as long as its product was of a high standard, people would buy and consume the product. This approach stresses the research and development of products in order to maintain the attention of potential customers.

Selling Orientation

As opposed product orientation, a firm using a sales orientation focuses primarily on the selling and promotion of a particular product. The successful management of the relationship between the company and its customers defines the act of sales or selling. It creates value for customers. Emphasis is not placed on determining new consumer desires, as such. Consequently, this entails simply selling an already existing product and using promotion techniques to attain the highest sales possible. Approaching marketing with a selling orientation was popular for companies in the 1950s and 1960s.

Marketing Orientation

Marketing orientation is a business model that focuses on delivering products designed according to customer desires, needs, and requirements, in addition to product functionality and production efficiency (i.e., product orientation). Beginning in the 1970s, Harvard Professor Theodore Levitt and other academics argued that the sales orientation model was ill-equipped to deliver products tailored to customer wants and needs. Instead of manufacturing products for the sole purpose of generating profit, they argued for

businesses to shift their strategy toward developing products based on customers' desires, insights, and opinions.

Holistic Marketing

The holistic marketing concept looks at marketing as a complex activity and acknowledges that everything matters in marketing. The four components that characterize holistic marketing are relationship marketing, internal marketing, integrated marketing, and socially responsive marketing.

- ***Relationship marketing*** emphasizes customer retention and satisfaction rather than a dominant focus on sales transactions.
- ***Internal marketing*** is a process that occurs within a company or organization whereby the functional process aligns, motivates, and empowers employees at all management levels to deliver a satisfying customer experience.
- ***Integrated marketing*** is an approach to brand communications where the different modes work together to create a seamless experience for the customer and are presented with a similar tone and style that reinforces the brand's core message.
- ***Socially responsible marketing*** is a marketing philosophy that states a company should take into consideration what is in the best interest of society in the present and long term.

Relationship Marketing & Management

Relationship marketing is a form of marketing that shifts focus away from sales transactions to emphasize customer satisfaction. It refers to a short-term arrangement where both the buyer and seller have an interest in providing a more satisfying exchange. This approach tries to disambiguiously transcend the simple post-purchase exchange process with a customer to make more truthful and richer contact by providing a more holistic, personalized purchase. Thus, relationship marketing uses this experience to create stronger ties between buyer and seller.

Relationship marketing is cross-functional, in that it is organized around processes that involve all aspects of the organization. It can be applied when there are competitive product alternatives for customers to choose from, and when there is an ongoing and periodic desire for the product or service.

With the growth of the internet and mobile platforms, relationship marketing has continued to evolve and move forward as technology opens more collaborative and social communication channels. This includes tools for managing relationships with customers,

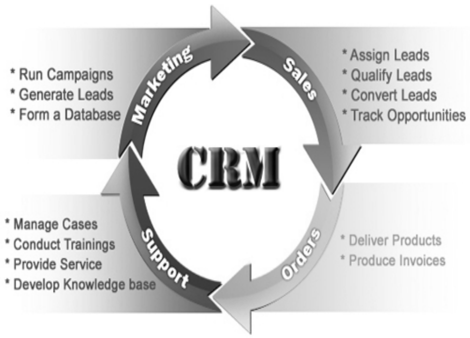
which go beyond simple demographic and customer service data. The practice of relationship marketing has been facilitated by several generations of customer relationship management software that allow tracking and analyzing of each customer's preferences, activities, tastes, likes, dislikes, and complaints.

Relationship marketing extends to include inbound marketing efforts, public relations, social media, and application development. It is a broadly recognized, widely implemented strategy for managing and nurturing a company's interactions with clients and sales prospects. The overall goals are to find, attract, and win new clients, nurture and retain those the company already has, entice former clients back into the fold, and reduce the costs of marketing and client service.

Customer Relationship Management

Customer relationship management (CRM) is a widely implemented model for managing a company's interactions with customers, clients, and sales prospects. It involves using technology to organize, automate, and synchronize business processes—principally sales activities, but also those for marketing, customer service, and technical support.

A key principle of relationship marketing is the retention of customers through varying means and practices to ensure repeated trade. This is accomplished by satisfying customer requirements more effectively than competing companies through a mutually beneficial relationship. Customer retention involves counterbalancing new customers and opportunities with current and existing customers as a means of maximizing profit. Many companies in competitive markets will redirect or allocate large amounts of resources or attention towards customer retention. In markets with increasing competition, it may cost five times more to attract new customers than it would to retain current customers.



The Influence of Marketing

Marketing can play a key role in integrating supply chain processes and promoting collaboration between different stakeholders. Supply chains are crucial functions that allow organizations to translate customer demand into product fulfillment and market delivery. A brand's entire supply chain also includes marketing, which can impact other functions such as sales, manufacturing, and distribution. Primary examples are organizations that hire external suppliers to produce marketing materials (print publications, promotional products, and point of sale systems) to market their products and services.

One of the primary responsibilities of marketing is to encourage communication between different parts of an organization to facilitate knowledge sharing. Marketing teams can play an integral role in integrating supply chain business processes, and promoting collaboration between buyers and suppliers, product developers, and common systems. Because operating an integrated supply chain requires a continuous information flow, marketers serve as major internal communication channels between customers, sales, purchasing personnel, and suppliers.

Marketing's Influence on the Supply Chain

On a smaller, but still significant scale are the numerous processes and internal and external partners companies use to deliver marketing materials to customers and clients. To move a finished product or service to customers, marketing works closely with printers, fulfillment houses, and other vendors to produce communications and execute marketing activities for different target audiences. From product brochures and promotional flyers to point-of-sale systems and store signage, each of these supplies must be acquired, managed, and ultimately distributed to customers, sales teams, branch offices, retail outlets, dealers, distributors, and other key audiences around the world.

In physical distribution, the customer is the final destination of a marketing channel, and the availability of the product or service is a vital part of each channel participant's marketing effort. It is also through the physical distribution process that the time and space of customer service become an integral part of marketing, thus linking the marketing channel with a company's customers (e.g., links manufacturers, wholesalers, retailers).

Marketing flows and processes encourage information sharing throughout the entire supply chain. From customer service representatives providing real-time information on scheduling and product availability, to procurement departments that develop rapid communication systems, such as electronic data interchange and Internet linkage, to

convey requirements from product marketing managers more rapidly, organizations must clearly communicate its marketing plan internally to successfully launch products with ever-shorter time schedules. By coordinating with product developers, plant managers (manufacturing), and logistics partners (distribution), companies can use this synergy between its departments to compete effectively in the marketplace and help drive firm revenue.

Subsequently, a brand's entire supply chain generally encompasses:
• Customer relationship management
• Customer service management
• Demand management style
• Order fulfillment
• Manufacturing flow management
• Supplier relationship management
• Product development and commercialization
• Returns management

Supply Chain Challenges

Over time, most supply chains can grow cumbersome as new partners, products, and technologies are introduced to processes. Failing to identify efficiencies and develop best practices can increase costs, reduce service levels, and result in an overall loss of control. Similar growing pains around the adoption and integration of new partners, products, and processes can create inefficiencies in marketing as well, driving up costs and potentially causing delays in other areas of a company's supply chain. For instance, some of the world's largest consulting firms estimate that up to 60% of marketing costs are related to non-product ancillary areas (distribution, people, freight, storage, obsolescence, technology, and inventory management).

It is crucial that brands support marketing functions so they are both managed effectively and integrated seamlessly into the larger supply chain, thereby meeting larger business goals. These range from supporting internal and external collaboration and lead time reduction initiatives, to streamlining feedback from customer and market demand and improving customer-level forecasting.

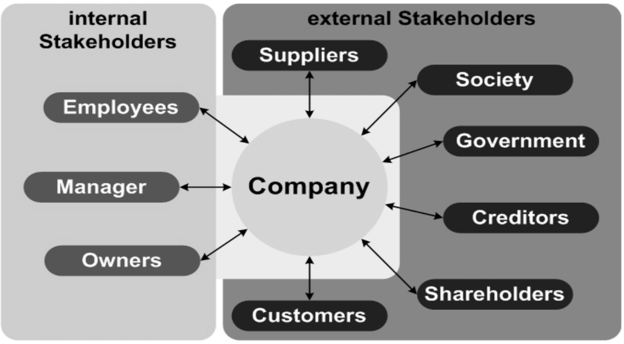
Stakeholders, the environment, and communications

Communication with Stakeholders: Defining Stakeholders

Stakeholders are involved in and/or affected (negatively or positively) by the outcome and impact of an action, project or program. Stakeholders can be divided into two main categories:

• Internal Stakeholders are engaged in economic transactions with the business (for example, stockholders, customers, suppliers, creditors, and employees).
• External Stakeholders are affected by or can affect a business's actions without being directly engaged in the business (for example, the general public, communities, activist groups, business support groups, and the media).

Marketing communication can be divided into two flows directed at different target audiences. This necessitates different yet compatible communication strategies. A company cannot be telling a customer one story and stockholders another.



Planning

Preparing a communication plan involves five key points:
• Defining the audience: List the key stakeholders needing information about the course of events in the project.
• Defining the requirements: Answer the question, "What do key stakeholders want to know?" This question should be answered according to the audience's level of knowledge.
• Building a communications schedule: A flexible yet consistent schedule should be prepared and verified by the audience.
• Defining the medium of communication: Presenting the information smoothly is important, especially for stakeholders. While they are not involved in the project, they need to know what is going on. An appropriate medium should be selected to ensure the information is delivered successfully.
• Preparing the content: The content should include the purpose company, the steps involved in meeting company goals, and the roles and responsibilities of team members.

Tools & Techniques

Communication can be in different forms including:

- Direct mail or online informational output
- To management in the form of e-mail or discussion forums
- To stakeholders in form of advertisement or public relations

The key to building a strong stakeholder relationship is communicating with all members of the company. Stakeholders should have a clear idea of a company's strategy. After any stakeholder discussions, it is important to create a written report of what was discussed. The report can have information on various projects, goals or new initiatives. The report should be detailed yet concise:

- It should show the structure and analysis of the budget.
- Profit/loss analysis and direction of the company should be summarized.
- The knowledge of all these steps are important for stakeholders to understand their involvement in the process.

In a nutshell:

- The key to building a strong stakeholder relationship is communicating effectively with all stakeholders.
- Internal stakeholders include stockholders, customers, suppliers, creditors, employees, etc.
- External stakeholders include the general public, communities, activist groups, the media, etc.
- Marketing communication can be divided into internal flows and external flows directed at different target audiences. This necessitates different yet compatible communication strategies.
- Preparing a communication plan involves five key points: defining the audience, defining its requirements, building a communications schedule, defining a medium of communication, and preparing the content.

The Dynamic Environment

A successful marketing campaign increases a company's profits and helps it reach its strategic goals. However, there are challenges to marketing because the business environment is constantly changing. Customer preferences and attitudes keep evolving and require managers to adapt rapidly. Another challenge involves reaching different target markets with culturally relevant propositions. McDonald's is said to be a good example of a company that can effectively reach a diverse audience.

Proactive attention to the environment allows marketers to prosper by efficiently marketing in areas with the greatest customer potential. It is important to place equal emphasis on both the macro and micro-environment and to react accordingly to changes within them. Reactive attention to the environment by marketers can lead to a disconnect with potential customers and can allow competitors to gain advantages that will win them a higher market share.

The Marketing Environment

Two key levels of the marketing environment are the micro-environment (near environment) and the macro-environment (far environment).

The Micro-environment

The micro-environment includes the company itself, its suppliers, marketing intermediaries, customer markets, and competitors. It also includes consumers, collaborators, and centers of influence.

The company aspect of micro-environment refers to the internal environment of the company. Each internal department has an impact on marketing decisions. For example, research and development has input on the features a product can have, and accounting approves the financial side of marketing plans and budgets.

The suppliers of a company are also a part of the micro-environment because even the slightest delay in receiving supplies can result in customer dissatisfaction. Examples of suppliers for such companies as automobile manufacturers would include providers of steel, aluminum, leather, and even audio system manufacturers.

Marketing intermediaries refer to the people that help the company promote, sell, and distribute its products to final buyers. Examples include wholesalers, and retailers such as Wal-Mart, Target, and Best Buy.

Physical distribution firms are places that store and transport the company's product from its origin to its destination. Examples include food distributors, such as Food Services of America.

Customer markets can include consumer markets, business markets, government markets, International markets, and reseller markets. The consumer market is made up of individuals who buy goods and services for their own personal use. Business markets include those that buy goods and services for use in producing their own products.

Competitors include companies with similar offerings for goods and services. To remain competitive, a company must consider who their biggest competitors are and simultaneously consider its own size and position in the industry. The company should aim to develop a strategic advantage over their competitors.

Collaborators are key marketing partners that lead to higher efficiency. Examples of collaborators include shipping providers, credit card processors, or online shopping cart providers.

Centers of influence are also key to successful marketing relationships. These are well-established business people who are good networkers that can lead you to other successful marketing relationships.

The Macro-environment

The macro-environment includes concepts such as demography, economy, natural forces, technology, politics, and culture.

Demography refers to studying human populations in terms of size, density, location, age, gender, race, and occupation. This helps to divide the population into market segments which can be beneficial to a marketer in deciding how to tailor their marketing plan to attract that demographic.

The economic environment refers to the purchasing power of potential customers and the ways in which people spend their money. Within this area are subsistence economies and industrialized economies. Subsistence economies are based on agriculture and consume their own industrial output.

Industrial economies have markets that are diverse and carry many different types of goods. Each is important to the marketer because each has a highly different spending pattern as well as a different distribution of wealth.

The natural environment includes the natural resources that a company uses as inputs. As raw materials become increasingly scarcer, the ability to create a company's product gets much harder.

Technology includes all developments from antibiotics and surgery to nuclear missiles and chemical weapons to automobiles and credit cards. As these markets develop, it can create new markets and new uses for products. It also requires a company to stay ahead of others and update their own technology.

The political environment includes all the laws, government agencies, and groups that influence or limit organizations and individuals within a society. It is important for marketers to be aware of these restrictions as they can be complex and can change often.

For example, regulations on packaging, such as the necessary inclusion of ingredients for food products or the limitation on product capability claims, must be understood by marketers to avoid negative public perception or sanctions.

The cultural environment consists of institutions and the basic values and beliefs of a group of people. The values can also be further categorized into core beliefs, which are passed on from generation to generation and are very difficult to change, and secondary beliefs, which tend to be easier to influence. As a marketer, it is important to know the difference between the two and to focus your marketing campaign to reflect the values of a target audience.

In a nutshell:

• Since the business environment is constantly changing and customer preferences keep evolving, marketers are required to adapt rapidly.
• The micro-environment includes the company itself, its suppliers, marketing intermediaries, customer markets, and competitors. It also includes consumers, collaborators, and centers of influence.
• The macro-environment includes concepts such as demography, economy, natural forces, technology, politics, and culture.
• Proactive attention to the environment allows marketers to prosper by efficiently marketing in areas with the greatest customer potential. It is important to place equal emphasis on both the macro and micro-environment and to react accordingly to changes within them.
• Reactive attention to the environment by marketers can lead to a disconnect with potential customers and can allow competitors to gain advantages that will win them a higher market share.

Business-to-Business Marketing

Business marketing is the practice of facilitating the sale of their products or services to other companies or organizations that in turn resell them to use them as components in products or services they offer, or use them to support their operations. Business markets have a derived demand. This means that a demand in business markets exists only because of another demand somewhere in the consumer market. In other words, business markets do not exist in isolation. For example, the demand for restaurant furniture is based on the consumer demand for more restaurants.

Also known as business marketing, business-to-business marketing is also called industrial marketing, or B2B marketing, for short.

B2B Versus B2C

Business-to-Business (B2B) markets differ from **Business-to-Consumer (B2C)** markets in many ways. For one, the number of products sold in business markets dwarfs the number sold in consumer markets.

Suppose you buy a computer from Dell. The sale amounts to a single transaction for you. But think of all the transactions Dell had to go through to sell you that one computer. Dell had to purchase many parts from many computer component makers. It also had to purchase equipment and facilities to assemble the computers; hire and pay employees; pay money to create and maintain its website and advertisements; and buy insurance, accounting, and financial services to keep its operations running smoothly. Many transactions had to happen before you could purchase your computer. Business products can be very complex. Some need to be custom built or retrofitted for buyers. The products include everything from high-dollar construction equipment to commercial real estate and buildings, military equipment, and billion-dollar cruise liners.

Business marketing generally entails shorter and more direct channels of distribution. While consumer marketing is aimed at large groups through mass media and retailers, the negotiation process between the buyer and seller is more personal in business marketing. A single customer can account for a huge amount of business. Some businesses, like those that supply the U.S. auto industry, have just a handful of customers, i.e., General Motors, Chrysler, Ford, etc. Figuring out the buying dynamics of organizations can also be very complex.

Many people within an organization can be part of the buying process and have a say in what ultimately gets purchased, how much of it, and from whom. Having different people involved makes business marketing much more complicated, and because of the quantities each business customer is capable of buying, the stakes are high.

However, B2B and B2C marketing do share some basic principles. Namely, the marketer must always:

• successfully match the product or service strengths with the needs of a definable target market;
• position and price to align the product or service with its market, often an intricate balance; and
• communicate and sell the product in the fashion that demonstrates its value effectively to the target market.

In a nutshell:
• B2B marketing is the practice of organizations facilitating the sale of their products or services to other companies or organizations.
• Demand in B2B markets exists only because of another demand somewhere in the consumer market.
• B2B marketing generally entails shorter and more direct channels of distribution.

Social Marketing and Corporate Social Responsibility (CSR)

Social marketing is the systematic application of marketing, along with other concepts and techniques, to achieve specific behavioral goals for a social good. Social marketing has similar characteristics to marketing orientation but with the added proviso that there will be a curtailment of any harmful activities to society, in either product, production, or selling methods. Social marketing can be applied to promote merit goods – or to make a society avoid demerit goods – and thus to promote society's well-being as a whole.
For example, this may include asking people not to smoke in public areas, asking them to use seat belts, or prompting them to make them follow speed limits.

Social marketing is sometimes seen only as using standard commercial marketing practices to achieve non-commercial goals. This is an oversimplification, as the primary aim of social marketing is social good, while in commercial marketing the aim is primarily financial. Increasingly, social marketing is being described as having "two parents" – a "social parent," i.e., social sciences and social policy; and a "marketing parent," i.e., commercial and public sector marketing approaches. Social marketing has,

in the last two decades, matured into a much more integrative and inclusive discipline that draws on the full range of social sciences and social policy approaches as well as marketing.

Applications

Health promotion campaigns in the late 1980s began applying social marketing in practice. Notable early developments took place in Australia. These included the Victoria Cancer Council developing its anti-tobacco campaign "Quit" (1988), and "SunSmart" (1988), its campaign against skin cancer. WorkSafe Victoria, a state-run Occupational Health and Safety organization in Australia, has used social marketing as a driver in its attempts to reduce the social and human impact of workplace safety failings. Social marketing theory and practice has been progressed in several countries such as the US, Canada, Australia, New Zealand and the UK, and in the latter a number of key Government policy papers have adopted a strategic social marketing approach.

A variation of social marketing has emerged as a systematic way to foster more sustainable behavior. Referred to as Green Marketing, it concentrates on the marketing of products that are presumed to be environmentally safe. Green marketing incorporates a broad range of activities, including product modification, changes to the production process, packaging changes, as well as modifying advertising. It is a part of the new marketing approaches which do not just refocus, adjust or enhance existing marketing thinking and practice, but seek to challenge those approaches and provide a substantially different perspective.

Non-profit Marketing and Cause-Related Marketing

Non-profit marketing is mission-driven marketing using the organization's core mission as the foundation and marketing communications as the focus. Central to this mission-driven marketing philosophy is adherence to the organization's core values, and using its mission statement as the basis for planning and implementation of marketing strategy. Corporations also use mission-driven marketing to promote the goals of the organization as outlined in its mission statement and to communicate the benefits of achieving those goals to its stakeholders.

However, for-profit companies measure success in terms of the bottom line; that is, profitability, their ability to pay stock dividends or to repay loans. Despite their opposing objectives, for-profits and non-profits often come together to implement cause marketing programs. Cause marketing or cause-related marketing activities involve the collaboration of for-profit businesses and non-profit organizations for mutual benefit. One example would be the partnership of Yoplait's "Save Lids to Save Lives" campaign in support of Susan G. Komen for the Cure. The company packages specific products with a pink lid that consumers mail to Yoplait. In turn, Yoplait donates 10 cents for each lid.

Used more broadly, cause marketing efforts often refer to any type of marketing effort for social and other charitable causes, including in-house marketing efforts by non-profit organizations. Cause marketing differs from corporate giving, since corporate philanthropy typically involves a tax-deductible donation.

Corporate Social Responsibility (CSR)

Domestic and International scandals including environmental disasters, financial crises and human rights violations have prompted global companies to integrate corporate social responsibility (CSR) into their business.

CSR looks at how different business functions affect people and the environment, and integrates practices that positively impact society, employees and nature. Companies are manufacturing more goods, hiring more local labor, and utilizing more raw materials and resources extracted from the environment in International locations. To reduce the negative impact of their factories, production sites and supply chains, major brands have committed to sustainability targets that aim to reduce their carbon emissions and give back to the larger global community.

It is the overall opinion of a company that earns consumer support and loyalty. Marketing messages are used to shape consumer opinion. The right marketing stimulates trade. The marketing message, especially one based on societal benefit or good, shapes consumer buying decisions. The more the message resonates with the buyer and answers their questions, the more sales will increase.

More and more brands are integrating CSR into their businesses to improve their brand image, increase profits and position themselves favorably in competitive markets.

In a nutshell:

• Social marketing can be applied to promote merit goods – or to make a society avoid demerit goods – and thus to promote society's well being as a whole.
• Non-profit marketing focuses on goals in education, youth development, environmental protection, healthcare, poverty and spirituality.
• While for-profit organizations exist to produce profit, non-profit institutions exist to benefit a society, regardless of whether profits are achieved.
• Domestic and International scandals including environmental disasters, financial crises and human rights violations have prompted global companies to integrate corporate social responsibility (CSR) into their business.

Marketing Strategies

A marketing strategy is the combination of all of an organization's marketing goals into one comprehensive plan. The overall marketing strategy of an organization should focus on developing relationships with customers to understand their needs while also developing goods, services and ideas to meet those needs.

Creating a Strategy

How do you build your marketing strategy? Creating a marketing strategy generally involves six steps:

- *Information Gathering*: Research potential customers, their needs and spending habits in order to understand what sort of product, service or idea they wish to buy. A specific method of information gathering is targeting, which is the process of finding customers whose needs and preferences match the product range offered by a company.
- *Evaluation of Organization Capabilities*: Decide what your organization can produce and what your organization is not capable of producing based on the organization's specific strengths and weaknesses.
- *Identify Market Opportunities*: Research the current market for a product idea with no competition or strong demand.
- *Set Objectives of Marketing Strategy*: Decide what results need to be achieved in order to reach the organization's goals. An objective is a specific result that an organization aims to achieve within a certain timeframe and with available resources.
- *Formulate an Action Plan*: List the specific steps the organization needs to take to implement the marketing plan, and assign the responsibilities to specific staff members. One such step is product positioning, which is the process by which marketers try to create an image or identity in the minds of their target market. Action plans should be based around the 4 Ps or marketing, or SIVA analysis.
- *Monitor & Evaluate*: Study the marketing plan at least once per quarter to track performance against the set objectives.

Marketing experts created different categories for the countless strategies companies use today. Here are four examples of popular general marketing strategies you can choose from:

- *Niche Strategy*: A niche is an area in a market in which there are unmet needs that, when met, can lead to unique business opportunities. Niche strategy involves finding customers under-served by current offerings. An example of niche marketing is the online, self-help market in which businesses cater to highly specific aspects of peoples' lives for which they desire tips and advice.
- *Growth Strategy*: This strategy aims to increase revenue from existing market niches and deliver better offerings to new target markets.
- *Defensive Strategy*: This strategy aims to maintain, or defend, a leadership position in a market by developing brand loyalty and mass distribution.

- *Offensive Strategy*: This strategy aims to adopt a policy of "destroyer pricing" to preempt the entry of new firms or drive away existing competitors. Also known as predatory pricing, this strategy is useful when competitors or potential competitors cannot sustain equal or lower prices without losing money.

Adding Value

A main goal of marketing is to add value to an organization. Marketing also aims to present the value an organization's products can add to a consumer's life. It is able to accomplish this via the following avenues:

- It is the link between a society's material requirements and its economic patterns of response.
- It satisfies needs and wants through exchange processes and building long-term relationships.
- It is the process of communicating the value of a product or service through positioning to customers.
- It is an organizational function and a set of processes for creating, delivering, and communicating value to customers. It also manages customer relationships in ways that benefit the organization and its shareholders.
- It is the science of choosing target markets through market analysis and market segmentation, as well as understanding consumer buying behavior and providing superior customer value.

Marketing Methods Used to Deliver Value

For marketers to deliver value to a firm's customers, and also add value to the firm itself, they must consider what is known as the "total market offering. " This includes the reputation of the organization, staff representation, product benefits, and technological characteristics as compared to the market offerings and prices of competitors. Value, in this sense, can be defined as the relationship of a firm's market offerings to those of its competitors.

Value in marketing can be defined by both qualitative and quantitative measures. On the qualitative side, value is the perceived gain composed of an individual's emotional, mental, and physical condition plus various social, economic, cultural, and environmental factors. On the quantitative side, value is the actual gain measured in terms of financial numbers, percentages, and dollars.

One way for an organization to increase its perceived value added is to improve its quality/price ratio. When an organization delivers high quality but at a high price, the perceived value may be low. When it delivers high quality at a low price, the perceived value may be high. The key to delivering high perceived value is for a firm to make

consumers believe that its products will help them solve a problem, offer a solution, produce results, and make them happy.

Marketing provides a creative energy exchange between people and organizations in our marketplace. Since value changes based on time, place, and people in relation to changing environmental factors, marketing adapts to consumers changing perceptions and beliefs in order to have optimal value creation.

Customer Value Analysis

To reveal the company's strengths and weaknesses compared to other competitors, it is important to conduct a customer value analysis. This is the collection and evaluation of data associated with customer needs and market trends. The steps are as follows:

• Identify the major attributes and benefits, such as ease of use or improved social standing, that customers value for choosing a product. It is important to identify and define benefits as opposed to features.
• Assess the quantitative importance of the different attributes and benefits. In other words, attempt to assign an actual price differentiation for products with value-adding benefits.
• Assess the company's and competitors' performance on each attribute and benefit. It is important to be honest with yourself about who your actual closest competitors are and how they price their products.
• Examine how customers in the particular segment rated the company against major competitors on each attribute.
• Monitor customer perceived value over time.

Value Proposition

Conducting an effective customer value analysis can lead a company to creating an accurate value proposition. A value proposition is a promise of value to be delivered and a belief from the customer that value will be experienced. A value proposition can apply to an entire organization, or parts thereof, or customer accounts, or products or services.
Developing a value proposition is based on a review and analysis of the benefits, costs and value that an organization can deliver to its customers, prospective customers, and other constituent groups within and outside the organization. Organizations can use value propositions to position value to a range of constituents such as:

• Customers: to explain why a customer should buy from a supplier.
• Partners: to persuade them to forge a strategic alliance or joint venture.
• Employees: to "sell" the company when recruiting new people, or for retaining and motivating existing employees.
• Suppliers: to explain why a supplier should want to be a supplier to an organization or customer.

Thank You

Day 09

Branding

A brand is a name, term, design, symbol, or any other feature that identifies a seller's good or service. A concept brand is a brand associated with an abstract concept like breast cancer awareness or environmentalism. A commodity brand is a brand associated with a commodity. "Got milk?" is an example of a commodity brand.

History of Branding

Branding began as a way to tell one person's cattle from another by means of a hot iron stamp. Brands in the field of mass marketing originated with the advent of packaged goods in the 19th century. Industrialization moved the production of many household items from local communities to centralized factories. Factories established during the Industrial Revolution introduced mass-produced goods to sell their products to a wider market. It became apparent that a generic package for a good had difficulty competing with familiar, local products. Packaged goods manufacturers had to convince the market that the public could place just as much trust in the non-local product. Campbell Soup, Coca-Cola and Juicy Fruit gum were among the first products to be "branded" in an effort to increase the consumer's familiarity.

By the 1940s, manufacturers began to recognize the way consumers were developing relationships with their brands in a social, psychological and anthropological sense. From there, manufacturers learned to build their brand's identity and personality. This began the practice known as "branding," whereby consumers buy "the brand" instead of the product.

Branding Concepts and Techniques

Proper branding can result in higher sales of not only one product, but on products associated with the brand as well. For example, if a customer loves Pillsbury biscuits, he or she is more likely to try other products offered by the company. Some people distinguish the psychological aspect of a brand from the experiential aspect. Psychological aspects include thoughts, feelings, perceptions and images associated with the brand. The experiential aspect consists of a consumer's overall contact with the brand, otherwise known as the "brand experience".

Brand image is a symbolic construct created within the minds of people. It consists of all the information and expectations associated with a product, service or the company. People engaged in branding seek to create the impression that a brand associated with a product or service has certain qualities that make it unique. A brand is therefore one of the most valuable elements in an advertising theme, as it demonstrates what the brand owner is able to offer in the marketplace. The art of creating and maintaining a brand relevant to a target audience is called brand management.

Brand orientation, meanwhile, refers to the concentration of an entire organization toward its particular brand. Brand orientation is developed in responsiveness to market intelligence. A brand which is widely known in the marketplace acquires brand recognition.

When this recognition builds up to a point where a brand enjoys a critical mass of positive sentiment, it is said to have achieved brand franchise. Brand recognition is most successful when people can recognize a brand through visual signifies like logos, slogans and colors. The outward expression of a brand, including its name, trademark and visual appearance, is brand identity. This is in contrast to the brand image, a customer's mental picture of a brand.

Global Strategy

Now that the world has entered the twenty-first century, we are seeing the emergence of an interdependent global economy. This global market is characterized by faster communication, transportation, and financial flows, all of which are creating new marketing opportunities and challenges. Companies recognize that worldwide competition, International marketing trends, and Internet technologies must be considered when launching campaigns both domestically and Internationally.

Given these circumstances, it could be argued that both small and large companies face one of two options: They must either respond to the challenges posed by this new environment or recognize and accept the long-term consequences of failing to do so. With the exception of companies in local niche markets, competitive changes within various markets are increasingly forcing companies to incorporate global variables into their marketing communications strategy.

As a result of this rapid shift towards an integrated, global economy, brands must adjust all aspects of the marketing mix to fit local tastes and needs, while maintaining a consistent product and brand image. Oxford University Press defines global marketing as "marketing on a worldwide scale reconciling or taking commercial advantage of global operational differences, similarities and opportunities in order to meet global objectives. " The global economy certainly provides advantages to companies wanting to increase revenues and expand their brand. However, brands must be cognizant of some of the major challenges that come with marketing to a global audience.

Adjusting the Marketing Mix for a Global Audience

The four "P's" of marketing–product, price, placement, and promotion–are affected as a domestic or multinational company adjusts its strategy to become a global company. At the global marketing level, global marketing plans must be tailored so that companies speak in many voices rather than just one. Developing marketing plans for different regions gives companies flexibility when reacting against competition or defending their position (market leadership, low cost provider, etc.) in a particular market.

***Product*:** A global company will have to tweak certain elements of its products for different markets. Even a single product will need to be modified according to the market it will be sold in. Product packaging features, including color, shape, and form, may be similar. However, messaging and language are tailored according to the country's native language and customs.

***Price*:** Because it is affected by several variables, price will always vary from market to market. For example, cost of product development (produced locally or imported), cost of ingredients, cost of delivery (transportation, tariffs, etc.), and other variables will determine product pricing. Product positioning, including whether the product is high-end, low-cost, or middle ground, compared with competing brands also influences the ultimate profit margin.

***Placement*:** Product distribution will also be determined by local and global competition, as well as the product's positioning in the marketplace. For example, brands would not want to place high-end products in "dollar stores" in the United States. Likewise, a low-cost product in France would find limited success in an expensive boutique.

***Promotion*:** After product research, development and production, promotional tactics, such as advertising, are generally the largest line item in a global marketing budget. An integrated marketing communications (IMC) strategy is key to achieving marketing goals, since IMC reduces costs, minimizes organizational redundancies, maximizes speed of implementation, and unifies brand messaging.

Advantages of Global Marketing

The global economy provides many advantages for companies that are able to introduce their products on a global scale, while customizing their marketing strategies for different languages, cultures, and socio-economic demographics. These advantages include:

- Economies of scale in production and distribution
- Lower marketing costs
- Enhanced power and scope
- Consistency in brand image
- Ability to leverage good ideas quickly and efficiently
- Uniformity of marketing practices

Disadvantages of Global Marketing

Nevertheless, many companies struggle with meeting the challenge of a larger and more complex marketplace. Brands conduct extensive research and consider numerous market variables when developing global marketing plans. Some of the challenges to marketing in a global economy are:

- Differences in consumer needs, wants and usage patterns for products
- Differences in brand and product development and the competitive environment

- Differences in the legal environment, which may conflict with laws in home market
- Differences in product placement or distribution channels

Evaluation and Positioning

The intangible benefits of marketing – improving and enhancing brand awareness; educating customers and prospects about product benefits; and strengthening stakeholder relationships – make measuring its financial impact a perplexing and challenging process.

Positioning and Mapping

Ideally, marketing performance measurement should be a logical extension of the planning and budgeting exercise that happens before a company's fiscal year. The goals that are set should be both measurable and applicable to every marketing role within an organization. Companies employ various methodologies to measure marketing performance and ensure they meet those performance goals.

Importance of Marketing Performance Metrics

Marketing performance metrics or key performance indicators (KPIs) are useful not only for marketing professionals, but also for non-marketing executives. From the chief executive officer to the vice president of sales, the senior management team needs marketing KPIs to gauge how marketing activities and spending impact the company's bottom line. This is particularly important since companies are prone to reduce marketing budgets during economic downturns, downsizing, and mergers.

As marketers face more and more pressure to show a return on investment (ROI) on their activities, marketing performance metrics help measure the degree to which marketing spending contributes to profits. It also highlights how marketing contributes to, and complements, initiatives in other areas of the organization, such as sales and customer service.

Other reasons why companies evaluate marketing performance include:

- Monitoring marketing's progress towards its annual goals
- Determining what areas of the marketing mix – product, price, place, and promotion – need modification or improvement to increase some aspect of performance
- Assessing whether company goods, services, and ideas meet customer and stakeholder needs
- Establishing marketing performance metrics is integral to helping brands satisfy customers, establishing a clear company image, being

proactive in the market, and fully incorporating marketing into the company's overall business strategy.

Positioning is the marketing activity and process of identifying a market problem or opportunity, and developing a solution based on market research, segmentation and supporting data. Positioning may refer the position a business has chosen to carry out their marketing and business objectives. Positioning relates to strategy, in the specific or tactical development phases of carrying out an objective to achieve a business' or organization's goals, such as increasing sales volume, brand recognition, or reach in advertising.

Generally, the product positioning process involves the following steps:

• Defining the market in which the product or brand will compete (who the relevant buyers are)
• Identifying the attributes (also called dimensions) that define the product 'space'
• Collecting information from a sample of customers about their perceptions of each product on the relevant attributes
• Determine each product's share of mind
• Determine each product's current location in the product space
• Determine the target market's preferred combination of attributes (referred to as an ideal vector)
• Examine the fit between the product and the market.

Perceptual Mapping

Perceptual mapping is a diagrammatic technique used by marketers in an attempt to visually display the perceptions of customers or potential customers. Typically the position of a product, product line, brand, or company is displayed relative to their competition. Some perceptual maps use different size circles to indicate the sales volume or market share of the various competing products.

Perceptual Map Of Competing Products

Perceptual maps commonly have two dimensions even though they are capable of having several. For example, consumers saw Toyota and Ford as similar. They are close competitors and form a competitive grouping. A company considering the introduction of a new model will look for an area on the map free from competitors.

Perceptual Map Of a Consumer's Ideal

Many perceptual maps also display consumers' ideal points. These points reflect ideal combinations of the two product characteristics as seen by a consumer. Ideal points maps reflect ideal combinations of two product characteristics as seen by a consumer. This helps marketers accurately target their message to consumers based on consumer desires.

Combining the Competing Products and Ideal Points Maps

A company considering introducing a new product will look for areas with a high density of ideal points. They will also look for areas without competitive rivals. This is best done by placing both the ideal points and the competing products on the same map. This map displays various aspirin products as seen on the dimensions of effectiveness and gentleness. It also shows two ideal vectors. This study indicates that there is one segment that is more concerned with effectiveness than harshness, and another segment that is more interested in gentleness than strength. A combination map of competing products and ideal points allows companies to find a space that has unmet consumer desires.

Ansoff Opportunity Matrix

The Ansoff Opportunity Matrix was created by Igor Ansoff as a way to create growth strategies for corporations based on markets and products . According to Ansoff, there are four possible combinations:

- Marketing penetration – This growth strategy uses current products and current markets with the goal to increase market share.
- Market development – This growth strategy uses existing products to capture new markets.
- Product development – This growth strategy uses new products in the existing market.
- Diversification – This strategy creates completely new opportunities for the company by creating new products and new markets.

A company should decide which strategy to use based on the strengths and weaknesses of the company and its competitors. Each strategy has a different level of risk, with market penetration having the lowest risk and diversification having the highest risk.

Market Penetration

This occurs when a company infiltrates a market in which current products already exist. The best way to achieve this is by gaining the customers of competitors. Other ways include attracting non-users of your product or convincing current clients to use more of your product.

The penetration that brands and products have can be recorded by companies such as ***ACNielsen*** and ***TNS*** who offer panel measurement services to calculate this and other consumer measures. In these cases, penetration is given as a percentage of a country's households who have bought that particular brand or product at least once within a defined period of time. While market penetration may come with the lowest risk, at some point the company will reach market saturation with the current product and will have to switch to a new strategy, such as market development or product development.

Market Development

Market development targets non-buying customers in currently targeted segments. It also targets new customers in new segments in order to expand the potential market. New users can be defined as: new geographic, demographic, institutional, or psychographic segments. Another way is to expand sales through new uses for the product.
Before developing a new market, companies should think about the following: Is it profitable? Will it require the introduction of new or modified products? Is the customer and channel researched and understood? If a company believes that their strength lies with their products and they believe their products would be enticing to new customers, then a company may want to use a market development strategy.

New Product Development

New product development is a process that has two parallel paths: one involves the idea generation, product design, and detail engineering; the other involves market research and marketing analysis. A product is a set of benefits offered for exchange and can be tangible (that is, something physical you can touch) or intangible (like a service, experience, or belief). Companies typically see new product development as the first stage in the overall strategic process of product life cycle management used to maintain or grow market share. If a company believes that their strength lies with the customers, then they should consider a product development strategy.

Diversification

Diversification seeks to increase profitability through greater sales volume obtained from new products and new markets. At the business unit level, diversification is most likely to expand into a new segment of an industry that the business is already in. At the corporate level, it is generally via investing in a promising business outside of the scope of the existing business unit. Ansoff pointed out that a diversification strategy stands apart from the other three strategies.

The first three strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line, whereas diversification usually requires a company to acquire new skills, new techniques, and new facilities.

Because of the high risk involved with diversification, many marketing experts believe a company shouldn't attempt diversification unless there is a high return on investment and their SWOT analysis makes them feel that they have a chance of succeeding in the new market with a new product.

BCG Matrix

The BCG Matrix was created in 1970 by Bruce Henderson and the Boston Consulting Group. The purpose of the BCG Matrix is to determine investment priorities for a company with a portfolio of products/business units (BU). A scatter graph is used to show how a product/BU ranks according to market share and growth rates.

Four Outcomes
According to the BCG Matrix, there are four different possible states for a product/BU:
• Cash Cow
• Dog
• Question Mark
• Star

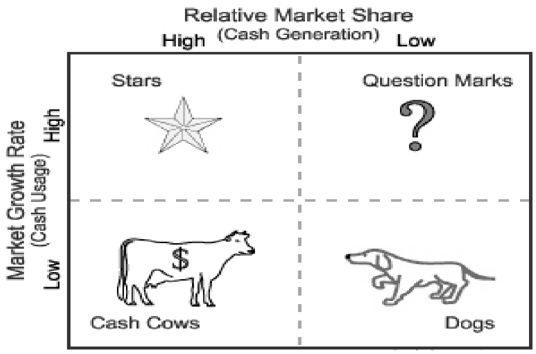
A cash cow is a product/BU that has high market share and is in a slow growing industry. It is bringing in way more money than is being invested in it and the main idea is to ride it out as long as possible. A company shouldn't invest any more money in a cash cow because the industry cycle is at its end, but it is still a viable product/BU while the profits last.

A dog has a low market share in a mature industry. There is no room for growth so no more funds should be invested in the product or product/BU. If it is a BU, then the consensus is to sell it off.

A question mark is a product/BU growing rapidly in a growing industry. It is consuming vast amounts of financing at this point and creating a low rate of return. A question mark does have the potential to become a star, however, so it should be monitored to determine its growth potential.

A star has a high market share in a high growing industry. This is a product line or BU a company should focus its efforts on in the hopes that it will become a cash cow before the end of its life cycle. According to the principles behind the BCG Matrix, as an industry grows, all business units become cows or dogs. Usually a BU will go from being a question mark, to a star, then a cow, and finally a dog.

Other Uses for the BCG Matrix
Other possible uses for the BCG Matrix are determining relative market share and the market growth rate of a product line. The BCG Matrix can help determine where a product is in its product life cycle and if there is a possibility of growth for the market or product.



GE/McKinsey Approach

The GE / McKinsey matrix is a model used to assess the strength of a strategic business unit (SBU) of a corporation. It analyzes market attractiveness and business strength to determine the overall strength of a SBU. The GE Matrix is plotted in a two-dimensional, 3 x 3 grid. The Y-axis measures market attractiveness based on a high, medium, or low score. The X-axis measures business unit strength on a high, medium, or low score.

Market Attractiveness
Market attractiveness deals with different external factors. These factors can include such things as market size, market growth rate, and market profitability. External factors that can affect market attractiveness also include pricing trends, competitive intensity, overall risk, and entry barriers. Other considerations regarding market attractiveness include what if any opportunities there are to differentiate products and services, demand variability, segmentation, distribution structure, and technology development.
Business Strength
Business strength focuses on internal factors and the ability of the SBU to overcome specific issues with the market and competitors. Different internal factors that need to be considered include assets and competencies, brand strength, market share, market share growth, and customer loyalty. Other factors that should be considered include relative cost position, profit margins, innovation, quality, financial resources, and management strength.

Business Strength

Market Attractiveness	Strong	Medium	Weak
High	**Protect Position** • Invest to grow at maximum digestible rate • Concentrate effort on maintaining strength	**Invest to Build** • Challenge for leadership • Build selectively on strengths • Reinforce vulnerable areas	**Build Selectively** • Specialize around limited strengths • Seek ways to overcome weaknesses • Withdraw if indications of sustainable growth are lacking
Medium	**Build Selectively** • Invest heavily in most attractive segments • Build up ability to counter competition • Emphasize profitability by raising productivity	**Selectivity/Manage for Earnings** • Protect existing program • Concentrate investments in segments where profitability is good and risks are relatively low	**Limited Expansion or Harvest** • Look for ways to expand without high risk; otherwise minimize investments and rationalize operations
Low	**Protect and Refocus** • Manage for current earnings • Concentrate on attractive segments • Defend strengths	**Manage for Earnings** • Protect position in most profitable segments • Upgrade product line • minimize investment	**Divest** • Sell at time that will maximize cash value • Cut fixed costs and avoid investment meanwhile

Uses for a GE Matrix

While the GE / McKinsey matrix was originally used to assess a SBU, corporations can use this for other purposes as well. It is a good way to determine if a company should enter a specific market. It is also a good way to assess how a company is doing in a specific market and if repositioning may be necessary to revive a faltering product line, brand, or organization. A GE Matrix should include the positioning of all competing products. It might also include the market size and revenues of each of these products.

Summary

Marketing is the link between a society's material requirements and its economic patterns of response. Marketing satisfies these needs through exchange processes and building long-term relationships. Marketing can be looked at as an organizational function and as a set of processes for creating, delivering and communicating value to customers, and managing customer relationships in ways that benefit the organization and its shareholders. Marketing is the science of choosing target markets through market analysis and market segmentation, as well as understanding consumer buying behavior and providing superior customer value. The set of engagements necessary for successful marketing management include capturing marketing insights, connecting with customers, building strong brands, shaping the market offerings, delivering and communicating value, creating long-term growth, and developing marketing strategies and plans.

Thank You

The **10th Day** is for the rest of mind and to revise the lessons.

No revision and only study makes the brain stressed and unable to hold the knowledge.

So take a deep breath, have a sound sleep and revise the lessons.